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# ECONOMIC DIGEST

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# ECONOMIC DIGEST

**JULY, 1954 VOLUME VII NUMBER SEVEN**

## New Look at Dollar Problem

### Solved or only Suppressed?

BY PROFESSOR RAGNAR NURKSE (*Columbia University*)

THE dollar gap seems to have closed. Since the middle of 1952 the current account of the U.S. balance of payments has been practically in equilibrium: U.S. exports and imports of goods and services have almost exactly balanced. On top of a balanced current account there has been a small trickle of private capital exports from the United States and a reduced though still substantial flow of U.S. government foreign aid. The net result has been an increase of over 2,000 million dollars in the gold and dollar reserves of the outside world.

This being so, is there any dollar problem left? If balance-of-payments statistics are to be the sole criterion, then I think we must admit that the problem, for the time being at least, has vanished. But if we look a little more carefully behind the balance-of-payments statistics, we may find that a dollar problem, even now, can still be said to exist, for a number of reasons.

(1) First, reserves of gold and dollars are, on the whole, still relatively low in the world outside the United States. The gain that occurred in 1952-53 is a modest gain that still leaves the degree of international liquidity far below what was regarded before the war as normal and desirable in relation to the dollar volume of trade. Governments are understandably reluctant to give up their trade and exchange restrictions, including restrictions on convertibility, as long as their buffer stocks of gold and dollars are so inadequate. The question of reserves is fundamentally inseparable from that of balance or imbalance in the flow of international payments.

(2) A second reason for caution in interpreting the U.S. balance of payments for 1952-53 is that the position in that period was a little unusual. The twelve months from mid-1952 were marked by boom conditions in the United States combined with a certain amount of slack in the economy of Great Britain and Western Europe generally. We have yet to see what sort of balance can be maintained in a period of slackening in the United States and full activity in Europe.

(3) Thirdly, about a quarter of the improvement in the world's current balance of payments with the United States in the last four or five years has been due to a special factor: U.S. government purchases of goods and services, mainly for military uses abroad. This item, which includes an increasing amount of offshore purchases, is dependent, by and

*From A New Look at the Dollar Problem and the U.S. Balance of Payments, Economia Internazionale, Genoa, February 1954*

large, on the state of international political tension rather than on normal economic forces. It is dependent presumably also on the willingness of Congress to allow military purchases from foreign instead of domestic American sources, and this, apart from political factors, may vary with business conditions in the United States.

(4) Lastly, we must remember that the world's demand for dollar goods is forcibly kept down by trade and exchange controls imposed on balance-of-payments grounds. To this extent the problem of disequilibrium is suppressed rather than solved. A 'potential' dollar gap may still exist even if the accounts as actually realised are in balance. Much of the improvement in 1952 must have been due to stricter controls and discriminations, including the drastic import cuts of the sterling area last year. What we want is not simply an accounting balance, but a balance that can be maintained—with, of course, possible swings in either direction—without the need for the obnoxious discriminatory restrictions. We have to keep in mind here not only the restrictive controls affecting especially dollar imports, but also the government subsidies and other special measures of assistance designed to expand the production of commodities now largely imported from dollar sources. Such direct assistance amounts to protection quite equivalent to, though perhaps more effective than, discriminatory import restrictions. Another form of discrimination that may have kept down purchases from the dollar area is the European Payments Union and the trade liberalisation programme which applies to each member country's imports from the rest of that group but not imports from outside.

*It is impossible to know what the U.S. balance of payments would have been in the absence of these various forms of discrimination, but it seems quite likely that instead of the approximately even balance actually realised by the outside world in* 1952-53, *there would still have been a sizable deficit.*

★ ★ ★

For these reasons I feel that it would be rash to hail the latest developments in the dollar balance of payments as a return to 'fundamental equilibrium'. The improvement is encouraging: it should convince even the sceptics that the position is not as hopeless as some have believed it to be. Yet the present balance is precarious. It is a position of equilibrium on the surface only: superficial rather than fundamental equilibrium. When we take into account the need for more reserves, the role of American military purchases and the existence of dollar import restrictions in the soft currency countries, we must, I think, admit that despite the favourable statistical showing a dollar problem still exists in the world even now.

## AUSTRALIA IS PLEASED WITH HER POSITION

AUSTRALIA'S present financial year (1953/4) is unique in that a condition of practically full employment is accompanied by a price level which is virtually stable. Never before in this generation in this country has such a situation been attained. And the implication that the economy is in an exceptionally well-balanced position is heightened by the fact that it is neither stimulated internally by deficit financing nor threatened at present from abroad by an adverse balance of payments.

*From Monthly Summary, National Bank of Australasia Ltd., Melbourne, May 12, 1954*

# Forward from E.P. Union

## To Fully Multilateral System

BY PROFESSOR RAYMOND F. MIKESELL (*University of Virginia*)

THE system of world payments has made substantial progress from the rigid bilateralism of the pre-EPU period to the present time.

The Union provides a mechanism of multilateral settlements for some 40 per cent of the world's trade, and the bulk of the trade is non-discriminatory as regards other members of the group. Another 40 per cent of the world's trade is conducted in dollars and convertible sterling, while a portion of the remainder is financed with inconvertible sterling, which is transferable with few exceptions throughout the entire non-dollar world. Nevertheless, in spite of the opportunities for multilateral settlements in non-dollar currencies, a large part of the non-dollar trade outside the European Payments Union is conducted under bilateral trade and payments agreements.

There is little reason at present for the existence of this bilateralism on balance of payments grounds and facilities ought to be developed for bringing it into the areas of multilateral settlements provided by the sterling and the EPU systems. This is particularly important if the European countries move toward general convertibility, since the larger the area of multilateral settlements the greater will be the possibilities for earning convertible currencies—and so the greater the stability of the system.

The central problem of creating a fully multilateral payments system is the convertibility of sterling and other major EPU currencies held by non-residents. If such convertibility were accompanied by the elimination of all discriminatory trade practices on the part of Western Europe and the countries associated with them in the same monetary areas, the field for bilateralism would be very narrow, accounting for less than 5 per cent of the world's commodity trade.

### Sterling Less Important

It is sometimes argued that a virtually complete multilateral system would be restored if sterling were to become a convertible currency at least for non-resident holders. This is an oversimplification. Trade financed with inconvertible sterling probably accounts for less than 35 per cent of the world's total, and trade financed with dollars and other convertible currencies accounts for perhaps 40 per cent of the total.

*Sterling is less important as an international payment medium than it was before the war. In spite of British efforts to increase the use of sterling as a medium for multilateral settlements, sterling transfers between non-sterling countries amounted to only £379 million in 1952. The recent expansion of the transferable account system may result in an increase in the use of sterling.*

Not only would sterling convertibility alone leave at least a quarter of the world's trade on a discriminatory and inconvertible basis, but there is considerable doubt whether or not sterling could 'go it alone', if the rest of the non-dollar

*From The Emerging Pattern of International Payments, Department of Economics, Princetown University, New Jersey, April* 1954

world were then to discriminate against Britain as it does against the dollar area. It is even possible that some of the outer sterling area members would continue to trade on a discriminatory basis with inconvertible currency countries. Independent sterling area members conduct a portion of their trade with one another and with other non-dollar countries under trade-quota agreements and in a few cases have actually negotiated separate payments agreements with non-sterling countries.

## Two Approaches

There are two approaches to the restoration of a multilateral system, namely, the individual country approach, and the regional or group approach.

Those who favour the country-by-country approach have frequently been critical of the European Payments Union on the grounds that it has delayed the resumption of convertibility by the stronger members of the EPU system and that it has resulted in the establishment of a self-perpetuating soft-currency bloc.

The regional or group approach to a fully multilateral system begins with the formation of a system of multilateral settlements and nondiscriminatory trade for a group of countries with close economic ties and then proceeds with the progressive removal of discrimination against the outside world by all members of the group. The chief advantage of the group as opposed to the country-by-country approach is that it reduces the tendency of the nonconvertible members to discriminate against a member who pursues more liberal policies on imports and payments with non-member countries. If a number of countries whose trade among themselves is relatively free of restrictions can reduce their discrimination against the dollar area while maintaining nondiscriminatory trade among themselves, each member is relieved of the danger of the loss of export markets to sellers in other members of the group. All members will of course face the possibility of losing markets to competitors, say in the dollar area, but for any country embarking upon convertibility and nondiscrimination, the problem of adjustment is easier, the wider the area of multilateral trade.

A gradual approach to convertibility for a group of countries whose trade among themselves is largely free of quantitative restrictions would require a progressive relaxation of discriminatory trade restrictions against imports from outside the group. Such relaxation, which would involve placing a progressively larger percentage of all imports under open general licence, should of course take place without tightening restrictions on intra-group trade. In fact, it would be desirable for the EPU countries gradually to expand the proportion of their imports under world open licence while at the same time continuing to increase the percentage of liberalisation of intra-EPU trade. Indeed, if in the process of becoming nondiscriminatory EPU countries found it necessary substantially to tighten up restrictions against one another, it would be an indication that as a group they were still in fundamental disequilibrium with the dollar area.

## Payments Mechanism

Any substantial relaxation of discriminatory controls by the EPU members against the dollar must be accompanied by the introduction of

a payments mechanism which permits the running of continual deficits and surpluses between individual members and the EPU area as a whole. A number of payments mechanisms are possible, including: (1) the use of the EPU settlement mechanism with 100 per cent gold settlement at the end of each accounting period; (2) the use of the EPU system as in (1) above but with some provision for overdrafts for countries with overall deficits on current account; (3) the abolition of the EPU structure in favour of monthly settlements between central banks; or (4) settlements through sterling which has been made convertible for balances held by foreign central banks.

## Probable Developments

No attempts will be made here to fill in the details for these or other possible systems. It may be well, however, to consider the possible payments techniques which may emerge from the developments of the recent past.

First of all, the principle of confining exchange dealings to authorised banks and dealers is likely to continue. This practice, coupled with that of requiring authorised dealers to turn over foreign exchange holdings in excess of minimum working balances, provides a means of mobilising foreign exchange resources and of achieving a better control over speculative capital movements. A second technique—developed out of the experience with bilateral payments agreements and also employed in the operation of the Tripartite Agreement of 1936—which is not likely to be abandoned, is to confine gold and dollar settlements to transactions between central banks or treasuries. This would be consistent with central banks agreeing to support one another's currencies in their own markets and to settle excessive balances at the end of each accounting period.

A third technique which is likely to be continued in any future system of convertibility is that of exercising some control over non-resident accounts.

## If E.P.U. Continues

Alternatively, if Britain were to continue membership in the EPU, sterling holdings of EPU members might be convertible *only* through the EPU. This represents a fourth technique developed during the post-war period, namely, settlements of *net* balances through a clearing union. Such an arrangement under a fully multilateral EPU system would mean that members would not be able to convert their surpluses with other individual members into dollars, but only their net surpluses within the group. In some respects the effects would be the same as in the case of bilateral settlements among the members, but the technique would have certain advantages over bilateral settlement. First, there would be some conservation of reserves and a reduction of the number of gold settlements. Second, if an arrangement were worked out whereby countries would pool a portion of their reserves in a clearing union, it would be possible to extend overdraft facilities to debtor countries. The reserve position of the clearing union could be strengthened further by limiting gold settlements with net creditors to amounts needed for meeting deficits with *non-members*. Hence members with overall surpluses would not draw in gold the full amount of their surpluses with the clearing union.

Retaining these techniques and the regional clearing union device would give rise to special problems with respect to the trade of members with non-dollar countries outside the Union area. First of all, it would probably be necessary for the EPU countries to terminate or revise all payments agreements which called for the acceptance by EPU members of inconvertible balances, inasmuch as EPU countries would not be permitted to employ discriminatory measures in order to avoid the accumulation of inconvertible balances. In other words trade with the non-dollar area would have to be financed either in fully convertible currencies or in the currency of an EPU country. Currencies of EPU members held by non-dollar countries outside the EPU area might be made convertible for current transactions, provided the holder agreed not to discriminate against the EPU country. Alternatively, such balances might be made transferable to any EPU member. Thus, if Belgium received sterling from Argentina in payment for current transactions, Belgium could present these balances to the EPU at the time of the monthly clearings. Still another alternative would be to expand the EPU to include new countries.

The methods of settlement suggested above would be quite consistent with the EPU arbitrage scheme presently in operation.

## Advantages of Retaining EPU

There are certain advantages to be derived from retaining EPU:

(1) The EPU and the associated trade liberalisation programme provide an organisation for a gradual elimination of trade discriminations and for the hardening of settlements without endangering the liberation achievements of the present intra-European trading system. Abandoning the system in favour of a country-by-country approach to convertibility, on the other hand, might result in a revival of discrimination, especially against the countries attempting convertibility.

(2) The EPU could continue to provide short-term credits for over-all debtors in the system.

(3) The retention of the EPU structure would provide a standby mechanism for maintaining at least a regional system of multilateral settlements should the recurrence of the dollar shortage lead the rest of the world to increase its discrimination against dollar imports.

(4) Retention of the EPU system may provide a means of moving toward *de facto* world-wide convertibility by means of payments techniques which have developed during the post-war period and which nations have found to be effective in controlling the transactions of their own residents. Moreover, these techniques are designed to achieve better control over capital movements.

Many of these same advantages might also be realised by the scrapping of the EPU in favour of a broadening of the sterling transferable account system along the lines developed by Britain in 1946 and 1947. But aside from the many political complications, there are reasons for doubting if sterling is likely to have the strength to become *the* key currency for post-war Europe. Alternatively, they could also be achieved by a system of central bank co-operation organised by the Bank for International Settlements or even by the Monetary Fund. But the EPU and the OEEC have several years of successful experience.

# Case for Free Exchange Rates

BY W. M. SCAMMELL (*University College of North Wales*)

IN 1944 free exchange rates were sadly out of fashion, and the International Monetary Fund was hostile towards them from the outset of its career. Now, after a decade, economists are having second thoughts on this matter, and the necessity for some variable factor, through which international adjustment may be made, is being realised.

Since the Fund's influence in exchange rate matters is probably greater than in any other branch of its work, and since opinion appears now to call in question the whole basis of its policy, namely the adjustable peg system, it is necessary to examine the present case for free rates more closely.

## Arguments Considered

Advocates of the par-value system claim that it has three advantages: (1) world trade flows more quickly and easily when there is confidence that the existing exchange rate will continue in future; (2) in a period of extensive overseas investment and development plans, such plans might be impeded by instability in rates of exchange; (3) a stable rate system is more suited to a world of currency areas (such as the sterling area) where a free rate for the common currency might be a bone of contention within the area.

These are strong arguments, but the swing of opinion away from support of the Bretton Woods system shows that they no longer carry the weight they did formerly.

The first argument—that fixed rates help the flow of trade—is not strengthened by the history of the post-war years. Even when an exchange rate varies from day to day the trend of the currency's value in the market can usually be assessed. When the balance of payments of the country concerned is in equilibrium, the rate of exchange is not likely to alter greatly in such a period as the average trade transaction takes to complete, while in disequilibrium the trend of the market may be judged. In either case forward exchange markets give protection. But with the adjustable peg system the pointers are uncertain. Traders may be kept for months in suspense awaiting a revaluation which may or may not take place. Moreover, even if the time of revaluation can be guessed the magnitude of the change cannot; in the summer of 1949 trade and payments were disrupted by the uncertainty surrounding the future value of sterling. While it is impossible to say to what extent international trade may be discouraged by a free-rate system, it is difficult to believe that the loss is greater than that which flows from the existing practice of altering an exchange rate long after it has become obvious to all that an adjustment is pending. Experience and a sober weighing of the alternatives has done much to rob this 'trade interference' argument of its force.

As to the second argument, much has been made by opponents of free rates of their supposed adverse influence upon long-term overseas investment. Yet it is hard to see that

*From What Sort of Exchange Rates?, Westminster Bank Review, London, May 1954*

decisions whether to make or to accept loans of long date, such as those floated for development purposes, can be more adversely affected by free rates than by the adjustable peg system, for in either event neither lender nor borrower can surely expect that the exchange rate in which he is interested will remain stable for decades. If free rates can do more than stable rates to adjust external balances and prevent recurrent balance-of-payments crises, the effect on international lending is likely to be beneficial rather than otherwise.

The third argument—that the system of currency areas makes fixed rates necessary—also has lost force. The sterling area is typical of a regional payments group, and it is one whose framework was cast in the nineteen-thirties, when the rate for sterling was free to fluctuate under market influence. The forces binding the countries of that system to the group are at least as strong as was then the case, and are probably stronger, and there seems no reason to suppose that they would be impaired by a decision to free the sterling rate, taken after consultation among the members.

Thus the stock arguments against a free-rate system have lost much of whatever potency they might ever have possessed. That is not sufficient ground however for adopting such a system and rejecting its alternative. We must first ask whether there has been any positive strengthening of the case against the adjustable peg system as a result of the I.M.F.'s experience.

## Disabilities of Freedom

At least three disabilities of that system have declared themselves and we shall look at these in turn.

(1) The first and most incontrovertible is that the peg system encourages currency speculation, which, in spite of the thin-meshed net of exchange control, can imperil the stability of a currency and make it impossible for a rate, once it falls under suspicion of impending devaluation, to be held. There is no doubt that speculation against sterling played a role in bringing about that currency's devaluation in September, 1949. The currencies of France, Canada and Australia have all been threatened in the same way. Apart from its effects, the fact that the form of speculation is a one-way option which may be indulged in without fear of loss and serves no constructive purpose is a further reason for ending it.

(2) The second disadvantage of the peg system is that too often the rate does not reflect the existing and true cost-price relationship between two currencies, but one which existed formerly. When countries pursue different domestic economic policies, cost-price relationships alter frequently, and even if changes in the exchange rate were made often, it is likely that they would reflect yesterday's conditions rather than those of today. The I.M.F. has been hostile to frequent changes of a rate of exchange, and experience has shown that its definition of a 'fundamental disequilibrium' is such that it will approve a rate change only in circumstances amounting almost to crisis. Where the necessity for change has to be proven in this laborious fashion, the situation may be beyond help by the time the change is made.

(3) Lastly, has it not proved a cause of instability to European countries and to the sterling area to have their currencies rigidly linked to the dollar? Has not this link

ensured that in the past every upward or downward movement of the mercurial American economy has been communicated to these other economies? In the summer of 1949 the inventory recession in the United States caused the decline in demand for European and sterling area exports which led to the devaluation of sterling and all the soft currencies. Would it not have been better if the decline in American imports had been met by the steady depreciation of the soft currencies? Later, in the second part of 1950 and in 1951, a fresh increase in United States prices and the primary commodity inflation caused by American stockpiling turned the terms of trade sharply against the industrial countries. The United Kingdom suffered heavily as the deterioration in her terms of trade caused her balance of payments to become adverse, while the rise in her import prices gave a fresh fillip to domestic inflation. Both the United Kingdom and the overseas sterling area would have been spared much if (subject to the approval of the latter) sterling had been allowed to appreciate slowly to the peak of the inflation (while the overseas sterling area still had a dollar surplus and the demand for sterling was in excess of the supply) and then to depreciate as the inflation subsided. The initial appreciation would have protected the British price level from the more extreme effects of rising import prices, while the subsequent depreciation would have reduced the shock to the overseas sterling area of the sudden drop in American demand as the boom collapsed. In one respect the demands made for sterling revaluation in early 1951 may be viewed as a rebellion against the rigidity of the fixed-rate system. The fact that if such a revaluation had taken place in the spring of 1951 it would have had short-lived benefits and would have intensified the United Kingdom's embarrassment in the autumn of that year strengthens rather than weakens the case for greater freedom of rates. For such rapid swings in relative prices the system of managed flexibility is unsuited, and there is much to be said for a method of foreign balance adjustment which is progressively invoked as imbalance develops.

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*The theoretical arguments, the experience of ten years, and the failure of the I.M.F. to work the adjustable peg system successfully, all point to the advisability of abandoning that system in favour of one of freely moving rates.*

There is no reason why such a system should not be accepted by the Fund and embodied in its working. The position of the Fund would not be impaired but might well, in the long run, be strengthened, for the Fund in its present position has everything to gain from a more daring and experimental policy. But great care should be taken in framing the *modus operandi* of the new free-rate system.

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**BANK-RATE UPS AND DOWNS**

BY ALAN PEACOCK

BUT one thing must not be forgotten about the bank rate. It can be altered frequently by a bland announcement from the Old Lady of Threadneedle Street. It is an interesting reflection on our constitution that Parliament keeps a close watch on tax changes, but a movement in the bank rate which may affect the fortunes of all, just as taxes do, remains the prerogative of the Bank and the Treasury. *My guess is that balance of payments difficulties may make it necessary to raise the bank rate again before the year is out.* (*Broadcast, B.B.C. Home Service, May* 1954)

# Value of Britain's Invisible Exports

BY JOHN APPLEBY

IN all the welter of statistics which were published in and around the Budget there is one set which never gets sufficient prominence: the figures for the all-too-aptly named invisible trade.

This is partly, I know, because they are doubly invisible. Not only are they technically so, but, in fact, over a considerable section it is impossible to find out what they are. For example: the overseas earnings of banking, of insurance, of the commodity markets, of the oil companies (*and* their tanker fleets) and the country's earnings from royalties are not only all lumped together under one heading; but this heading does not even appear on both sides of the account. It is only a net figure. For this obscurantism, the City itself is, I fear, largely responsible.

Nevertheless I make no apology for repeating the salient facts. Invisible income, even as shown, totalled just over £1,000 m. in 1953, that is to say, invisibles earned rather more than a third as much as our visible exports. The main contributors were shipping (£370 m.), 'other net' items (£298 m.), profits (£272 m.), and tourism (£88 m.). On the other hand invisible imports, not counting expenditure by the Government, was only £554 m., that is to say, less than a fifth of our visible imports. Without the invisible surplus of £474 m., which is the difference between these two figures, there would not have been a surplus on the balance of payments in 1953 at all.

AGE OF THE WORLD'S MERCHANT FLEETS

| | | *Percentages of Total* | | |
|---|---|---|---|---|
| *Years old* | U.K. | U.S. | Norway | Panama |
| *Under* 5 | 21 | 3 | 40 | 20 |
| 5—10 | 29 | 41 | 20 | 26 |
| 10—15 | 22 | 44 | 14 | 22 |
| 15—20 | 9 | 1 | 8 | 2 |
| 20—25 | 6 | 2 | 8 | 5 |
| *Over* 25 | 13 | 9 | 10 | 4 |

I draw attention to these figures for a special reason. Just as our invisible account is important in the total balance of payments, so it is in the dollar balance. Actually in 1953 the dollar invisible trade showed a deficit of £56 m. Similarly, just as shipping is an important element in the total invisible account, so is it in the dollar invisible balance.

Bearing in mind the cost of constructing ships in the United States, let alone running them under the United States flag, consider therefore this table of the age distribution of the main world fleets. (It appeared in *The Financial Times* in a different connection.)

Unless work trade comes to a full stop, surely in five and still more in ten years' time there is great scope for an increase in (invisible) dollar exports here?

*From F.B.I. Review, London, May 1954*

# Cheap Money Policy Defended

## A Critical Study of Arguments Against the Policy

BY PROFESSOR R. F. KAHN (*Cambridge*)

*Professor Kahn is, perhaps, in a minority among economists in this controversy, but his case is stated with characteristic force and clarity.*

THE usual argument which would be brought out against a positive policy of cheap money is that it would be inflationary.

A wealth of mystical nonsense is concealed behind such a statement. It can, however, mean something sensible. It might mean that the policy would encourage the wrong things as well as the right ones—for instance, purchases of private motor-cars and 'amenity investment'. That is true but it is capable of being partially dealt with by securing the co-operation of the banks and by Government control.

### Danger of Inflation

The danger of inflation usually means, however, if it means anything sensible, that a policy of credit expansion will be *too successful* in stimulating investment, and that it will result in undue pressure on resources. Of course, anything carried too far is carried too far. But exactly the same would be true of initial allowances or any other means of stimulating investment, if they were really successful. The complaint that business men are failing to take advantage of the resources already available for the production of additional equipment is a clear indication that monetary restriction has been insufficiently relaxed.

But if monetary policy is applied expansively rather than restrictively an *impasse* will soon be reached, on the assumption that activity in exports continues to be well maintained, and then the need has to be faced for restricting consumption, or at least for restricting its expansion.

That seems the right way to pursue a policy of full employment rather than to take up the slack in additional consumption and rely on monetary restriction to avoid inflation, which is what we seem to have been doing.

### Undesirable Stock Accumulation

Another objection is that credit expansion is liable to result in an undesirable accumulation of stocks of commodities.

This line of argument is usually much exaggerated. It possibly takes its origin in a relationship between bank advances and stocks which, in so far as it exists at all, exists without any of the precision described in the text-books. It carries more weight as an objection when business men are straining at the leash to build up stocks than at a time like the present, and it accords ill with the familiar observation that so many businesses are in a highly liquid state.

Nevertheless, the argument has some validity. The fact is that stocks are the devil for a capitalist system. But that is not a reason for subjecting its economic progress to perpetual restraint. Fluctuations due to the erratic behaviour of stocks must be faced and accepted and here again we ought to try to accept the associated ebb and flow of the country's

*From the Case for Cheap Money, Financial Times, London, June 3 and 4, 1954*

international monetary reserves with reasonable equanimity.

## Problem of Thrift

A rather popular objection at the moment to cheap money is that dear money has encouraged thrift. That it will have done so need not be denied, but the extent to which it can have done so can easily be exaggerated. In any case there is no point in encouraging thrift if the means employed discourage investment. The argument could be an argument for dear money only if other steps—far more drastic than the investment allowance, the initial allowances or anything else which is likely to be practical policy—were taken to ensure that resources released from meeting the needs of consumption were actively absorbed in the capital-goods industries.

Next there is the argument that cheap money would be ineffective. There is a good deal in this point of view but the fact that business is rather unresponsive to monetary policy is surely an argument for a strong dose rather than a weak one. At the same time there is some foundation for all the talk of shortage of risk capital and easy credit is one of the solutions (though in this field every solution is only a very partial solution).

## Impact on Investment

Those who dismiss the case for cheap money are implicitly dismissing also the argument in favour of the *soft way* of stimulating investment by encouraging personal at the expense of public savings. Mr P. D. Henderson, in his *Financial Times* article of March 8, referred to the relationship between company profits and fixed capital expenditure by companies, and to the large reserves held by many established firms.

But a global comparison of corporate savings and industrial investment can be misleading. Many businesses do in fact come to the market for finance, and those whose corporate savings exceed their own investment do not normally lend the excess to, or buy shares in, the businesses which are short of capital. Nor is it just a matter of the ability and willingness of the banks to finance investment. It is a matter also of the terms on which money can be raised on the market and the readiness of the market to absorb a relatively large issue of a particular company's shares without the necessity of a heavy sacrifice on the issue price.

Not only are yields today high, but the market is technically a poor one. If directors pay any attention to the interests of their shareholders—and surely they often pay some?—it is a matter of prospective earnings yields (which the existing shareholders must expect to have to give up to the new shareholders out of the prospective earnings of new capital investment), running frequently at 15, 20, 25 or more per cent. Even if attention is confined to dividend yields, it is a matter, on the basis of the Actuaries Investment Indices, as brought out in a recent article in the *Investors' Chronicle*, of a current yield on Ordinary shares averaging 5.6 per cent, which compares with only 4.15 per cent at the beginning of 1947.

## Provision of Capital

The rise in the cost of borrowing on fixed interest is also directly relevant. The discouraging effects of these high yields is not confined to the business which actually raises fresh capital or borrows. It is in

order to avoid having to incur such onerous terms that Boards of Directors find it necessary to withhold profits from their shareholders in order to finance investment, but it is only the more promising projects, offering the prospect of high returns, which justify the sacrifice involved in forgoing higher dividends. Also many of the companies which today own large liquid reserves can foresee the day when they will be exhausted and they are anxious to put it off by keeping within bounds their fresh commitments of capital; and in so far as they hold their reserves in gilt-edged securities they may be deterred from selling them by the prospect of gilt-edged prices making a further recovery.

It will be objected that what I am in effect advocating is a bigger and better Stock Exchange boom—with gilt-edged in the lead and carrying equities with them. It certainly is a fact that the present boom has carried *The Financial Times* Industrial Ordinary index (which conceals a wide dispersion of individual movements—see the leading article published on April 3) to a level only about 7 per cent above what it was at the beginning of 1947, whereas the cost of the equipment which companies buy with the proceeds from the issue of Ordinary shares has gone up enormously in the same period.

Nevertheless, there is a political difficulty about the Government deliberately encouraging the boom, and the additional consumption stimulated by Stock Exchange gains constitutes a real objection even though its probable magnitude is often exaggerated and it represents a once-and-for-all rather than a continuous absorption of productive resources, being the result of a *rise* in Stock Exchange prices rather than of their being *high*. The political, as well as the economic, picture is improved by bringing into it the necessity, already indicated, as soon as pressure on resources begins to become effective, of a tough taxation policy—carrying with it the idea that restraint is called for over the power to consume rather than over the forces governing constructive enterprise.

### Danger Point for Capitalism

Some would, nevertheless, prefer to keep the powder of credit expansion dry until it is needed to fight a rearguard action against a setback rather than to attack through strength. But this may mean waiting until the spirit of enterprise has become difficult to revive; and there is no definite limit on the amount of powder available.

There is a point beyond which it is dangerous to ignore the rules of the game if the capitalist system is to be made to work efficiently. A serious situation may necessitate unpalatable measures. As to the seriousness of the situation, I am happy to leave the last word with Mr Butler, who in his recent Budget statement, said that the level of our industrial investment 'is still too far below the corresponding achievement in the United States, and the trend compares unfavourably with the effort of some other countries, who are becoming our keen rivals in world markets'.

# Verdicts of London and Cambridge Economic Service

## I. U.K. ECONOMIC POSITION

It is still necessary to be very watchful of the American situation and of its impact on the rest of the world: this is not, for example, the moment for any sudden plunge towards convertibility, but rather for the renewal of the European Payments Union. It seems, however, reasonable to adopt the provisional working hypothesis that the expansion in the rest of the world can continue—but that plans should be prepared to cope with less favourable situations if they emerge.

So far as the United Kingdom is concerned, demand seems likely to expand by an amount fully adequate to match the increase in production which can be achieved. Indeed, some rise above the present level seems likely to be shown by each of the major categories of demand.

There is a danger that the high level of internal demand, while ensuring an expansion in production, may prevent an adequate rise in exports; and also that sectional claims for higher incomes, by raising our costs and prices, may weaken our competitive power, and so reduce exports (and encourage imports)—possibly to such an extent that the level of production suffers, in spite of the factors raising internal demand.

## II. INTERNATIONAL FINANCE (A. C. L. Day)

A combination of good fortune and increasing resilience has made it possible for the sterling area to ride the early months of the American recession more successfully than could reasonably have been expected. This success has helped breed further success, in the form of the speculative strength of sterling reflected in the high sterling-dollar exchange rate and a continued inflow of short-term money. The present international confidence in sterling could probably survive small seasonal gold losses in the summer (which still appear quite possible); but if the recession should continue, it must certainly have adverse effects. If these effects come, a consequent reversal of speculation might easily lead to a direct gold loss of some $300m. within a period of two or three months. For the United Kingdom's own position, the worsening of the terms of trade in April, though not of great importance in itself, may be a herald of a more permanent deterioration.

## III. PRICES AND WAGES (R. G. D. Allen)

The growing strength of world prices of basic commodities during March and April is to be attributed to such factors as the unsettled situation in S.E. Asia and the need for the re-building of commercial stocks,

*From London and Cambridge Economic Bulletin, The Times Review of Industry, London, June 1954*

allowed to run down in 1953. This rise in commodity prices may become a general advance sustained over some months. In this case it must be expected that the British terms of trade will improve no further; but the balance of payments position of the whole sterling area should be strengthened.

Prices at retail are affected neither quickly nor very directly by movements in basic commodity prices. However, for a variety of reasons, it is to be expected that the all-items index of retail prices will show some rise by July, i.e. before the seasonal decline which normally occurs in the late summer. Increases in wage rates awarded this year have been generally as high or higher than last year, and more of them have been on a percentage basis in contrast to flat additions. If the retail price index does rise appreciably in the next few months the prospects of any abatement in wage demands are poor.

## IV. WORLD COMMODITIES (C. F. CARTER)

AFTER the great upheaval in commodity prices in 1950-52, an unfamiliar calm has descended on most markets. Several of the prices recorded in our table have moved within narrow limits for a full year; some (like wool) are tending to move upwards again after a long gentle decline. Tea, coffee, and cocoa have been out of step, with marked increases of price; recently non-ferrous metals have, perhaps for temporary reasons, shown firmness. But the general lack of trend is shown in the import price indices; that for food, beverages, and tobacco has varied only between 99 and 102 (1953 = 100) since January, 1953, and has remained at 99 from October to March; that for basic materials has declined irregularly from 102 in January, 1953, to 96 in March, 1954. Yet this is in a period in which United States industrial production, which turned down last July, has been running a full 10 per cent below last year's peak. The unexpected lack of response of prices has been attributed to the fact that they had already fallen so far, in the precipitous decline from the Korean peaks, that there was little chance of further falls; the momentum of the decline had carried prices below 'normal', to a level where they were adjusted in advance to the lower American activity. Such an assertion is not capable of proof, but it may be true of some markets.

It seems likely, however, that another important factor was the fact that the American recession was so well foreseen. There is evidence that some commodity markets were affected well in advance, in the early part of 1953. For once, speculation has had the beneficial effect of steadying prices, because it has been based on a considered and justified view of the future. But in that case the American recession may well have been over-discounted, since it was generally expected to be more severe than it has so far shown itself to be; we may now be seeing the beginnings of an upward readjustment of prices. The possibility is worth attention, because it might lead to a worsening of our terms of trade even if United States production hardly recovers at all; while a confident expectation that the recession was near its end might seriously upset the United Kingdom (though not necessarily the Sterling Area) balance of payments.

# Britain Must Co-operate with the U.S.A.

## The Argument from Economic Interest

BY BARBARA WARD

THE fear of unemployment falls across society with almost as dark a shadow as war itself. If it can be shown that high and stable employment can be secured only within an international framework, that fact alone is the strongest possible argument for abandoning a purely national approach.

It is not difficult to prove that for Britain the maintenance of full employment depends in large measure upon international factors beyond Britain's control. And among these factors, the policies pursued by the United States are paramount.

On the Left, this dependence is used as one more argument for 'removing Britain from the American sphere of influence'. The American market is incredibly unstable, so runs the argument, and so long as Britain depends upon American trade to the present extent, every fluctuation in American capitalism will come to upset Britain's attempts to plan and stabilise its own economy. It is time, therefore, to work boldly for the alternative—the development of more and more trade with the stable economies of the Soviet Union, Eastern Europe and China, where vast markets lie for British manufactures.

### Fact and Fancy

But the facts do not fit the propagandist picture. Britain's chief needs are for foodstuffs, raw materials and specialised forms of capital equipment. As the objective evidence of the Economic Commission for Europe has made clear, Eastern Europe and the Soviet Union have had only marginal supplies of these commodities available. Nor is this a short-term trend attributable to the dislocations of war and revolution. The aim of Soviet policy is the rapid industrialisation of Eastern Europe, and the pace has been so hot recently that far from food being available for export, Eastern Europe has been on desperately short rations. Within the Soviet Union, the expansion of food supplies, always the Achilles heel of each successive Plan, is still lagging far behind the rate of industrial advance, and in the next decades Russia is likely to have difficulties in feeding itself, quite apart from finding surpluses for export.

As for capital goods, these are the goods the Communist world—like all other relatively under-developed areas—is most anxious to import.

This is not to say that Britain may not scratch together odd contracts to the tune of £30 millions or so. It is even conceivable that British trade with Russia might rise from the present 2½ per cent of total trade to the total of 4 per cent achieved before the war. But these almost marginal activities are very different from the attempt to underpin the entire British economy by a hoped-for expansion of East-West trade.

Moreover, for the Communists, trade is an instrument of politics as much as of economics. Marshal Tito, having switched much of his trade

*From Britain's Interest in Atlantic Union, Friends of Atlantic Union, London (1/6)*

from West to East before 1948, found himself under Communist blockade when he left the Soviet camp. The greater the dependence the British economy came to have on East-West trade, the more vulnerable it could become to this type of reprisal.

**Competing Needs for Capital**

Nor is it simply the security of the British economy that is at stake. The new dominions of Asia and the dependent areas of the Commonwealth need steady imports of food and large injections of capital. Capital goods sent from Britain to Soviet countries are subtracted from the capital available for the needs of the Sterling Area. No amount of propaganda can mask the fact that in India's famine of 1949 and Pakistan's food shortage of 1953, it was not Russia or China but the United States that sent the grain to avert catastrophe.

The reason is simple. It is not only that the Americans are generous. It is also that they have a genuinely surplus economy. They produce more foodstuffs than their domestic market can dispose of and are in a position to provide very large amounts in genuine saving backed by the industrial capacity to turn the saving into capital goods.

These facts do not mean that to secure steady American international trade and investment is a simple problem. But they do mean that in a world where the pressure for food and for capital will increase steadily, it is hardly the height of political wisdom for Britain—and those few parts of the Commonwealth that would follow its example—to break away from the American economic system with its potential surplus, and turn to the Communist world whose shortages are likely to double Britain's own.

**Discrimination against Dollar**

Yet the difficulties and uncertainties inherent in Britain's dependence upon the American economy remain, and they have led men of varying political outlook to advocate a kind of limited detachment of Britain from American economic influence. Its point of departure is simply treating the dollar on a different basis from every other currency.

The dollar, runs the argument, is inherently strong and attractive, and represents the power to buy goods more plentifully and often more cheaply than by any other means. At the same time, American self-sufficiency, efficiency and high tariffs keep to a low level American purchases overseas. The result is that any economy which makes its currency freely convertible into dollars or allows complete liberty of capital movement, will very soon find its reserves draining away and its dollar stock exhausted. Yet, according to American rules of non-discrimination, no restrictions may be placed upon imports from the United States (to check the outflow of dollars) unless the restrictions are applied to all currencies, in which case a general decline in trade would follow.

The only 'classical' means of redress would be a depreciation of the non-dollar currency severe enough to price dollar goods out of the market. The grave disadvantages of this orthodox approach are obvious enough. Successive devaluations steadily impoverish the devaluing countries—especially when they depend, as does Britain, on a high level of imports. Nor is it likely that devaluation could restore balance to dollar trade, for the American tendency to exclude goods which

have become competitive simply because they begin to undersell American producers, could be greatly increased if the underselling could be put down not to greater efficiency but to manipulating the exchange rates. Conceivably the United States might join in competitive devaluation. At the same time, devaluation of other currencies would lessen the desire of American investors to invest abroad.

**Discriminations and Reprisals**

Yet the difficulties of trading with America are such that the policy of giving the dollar a special status is widely supported and practised. The essence of this status is to exclude the dollar from general convertibility and to retain control over dollar imports. The areas within which the advocates of such policies wish to see them practised vary. Some hope for a closed sterling area, underpinning Empire trade. Others desire a continuance of the present position in which roughly all the non-dollar section of the North Atlantic Treaty, together with the other members of the Sterling Area, work a payments agreement between each other which excludes trade between dollar countries and the European Payments Union, and, by so doing, keep a tight check on the import of dollar goods.

Yet even the advocates of this system of limited convertibility put it forward in default of a genuine international agreement on trade and payments. It has grave and obvious disadvantages. It seeks to balance trade by cutting dollar purchases and thus keep the whole volume of trade flowing at a lower level. In so far as it excludes competitive American products, it weakens the international division of labour and lowers real standards of wealth.

The disincentive to American overseas investment has the same result. It perpetuates rigidity in the non-dollar economies, particularly in the movement of capital. It provides a cover for inefficient and uncompetitive production—which again represents a loss in real wealth. Above all, it can only be made to work with a certain tolerance for the system in America itself. So long as the restrictions can be seen as interim measures, designed to make good the ravages of war and the dislocatives of the cold war, the Americans accept a measure of discrimination. If it were to become the settled policy of their partners, it is difficult to believe that the pressure to introduce American reprisals would not become irresistible. Yet they would only aggravate still further the world's dollar deficiency.

**U.K. must work with U.S.A.**

This point of American tolerance is cardinal. It is a reminder that there is no real solution to the economic problems of Britain, Europe or the Commonwealth without full American co-operation. There is no way of evading American influence. It follows from the sheer scale of the American economy. The various alternatives to co-operation do little to minimise the impact of an American depression. They do nothing to expand world trade and world prosperity by the widest and most efficient use of the free world's resources. They are all *faute de mieux*.

The ideal is naturally a co-operative system in which currencies and trade are free and in which the member states keep them so by maintaining efficiency at home, avoiding inflation, pledging themselves to full employment, and

[*Concluded on page* 310

# British Farmers Face Freedom

## A Review, on the Eve of Freedom for Consumers, of the Vagaries of 25 Years of Control

BY K. E. HUNT

FOR a quarter of a century British farming has been acclimatising itself not only to the vagaries of the economic weather but also to the draughts and stuffinesses of the devices designed to temper it. And it has been small businesses which have had to work out their salvation in this way, for less than 60 thousand of the half million holdings in the United Kingdom are over 150 acres and less than 100 thousand are more than 100 acres.

Twenty years ago free trade in agricultural products had ended and the country had embarked on a series of experiments in search of the best of these devices. Tariffs, import quotas, levy-subsidy schemes, producer marketing boards, commodity commissions and direct subsidies were all among the ways used to help one or other section of a depressed industry. By the outbreak of war, some arrangements might be viewed with modified satisfaction, considering the imperfectness of the real world, some had signally failed, and others had stimulated demands for similar support for allied products. These 'chain reactions' were in progress in 1939 and it is by no means clear where they would have led—certainly effective machinery for co-ordination would have been needed sooner or later.

In favour of many of these devices it could be argued that they did help producers of the commodity concerned, that they were practicable to administer, and that in the conditions of the times they were publicly acceptable. Many questions, however, were hotly debated. . . .

### Debated Questions

*How can consumers' interests be protected, and producers' efficiency be encouraged, under producers' marketing boards with monopoly powers? . . . How can consumers be brought to value food highly enough to pay for it at the shop rather than at the tax collector's? . . . and be taught to discriminate between good and poor quality produce? . . . How can farmers be protected against sudden changes in Governmental policy at short notice? . . . What is the cost to consumers of a quota restriction scheme for imports or a supply stabilisation scheme at home? . . . What progress in rationalising marketing was actually achieved? . . . How can the producer's price be subsidised without dealers dropping their bids to offset it? . . . When the level at which prices are guaranteed are being discussed, producers naturally press for the highest price they can get. What can be done to make sure that it is not set so high, that over a run of years more product is called forth than can be disposed of? . . . If assistance schemes must be extended, how can Parliament be given a reasonably effective control over the total assistance to the industry?*

To some of these questions the experience of the past fifteen years has produced answers, notably those about co-ordination and control of

*From The State of British Agriculture*, 1953-4, *University of Oxford Institute of Agricultural Research in Economics*, *March* 1954 (10/-)

the total assistance, but most of the rest have been pushed into the background rather than solved.

## Wartime Concern

The war period was peculiar in its singleness of purpose for the agriculture industry. Direct food crops and milk about summed up the first priorities of the production programme. The impossibility of controlling food prices without control of food supplies had been a bitterly-learnt lesson of the First World War and comprehensive control was started very early in the Second. For a year or two the *ad hoc*, commodity by commodity, approach of the 1930's continued in respect of prices and production of the home products.

But, out of the lessons of the past, the grave importance of food in wartime and the coherence of purpose of farmers and officials, there grew up a more co-ordinated approach, in which the production priorities and the relative changes in costs of production of all commodities were considered together with the general state of the industry. From this developed in due time what has come to be called the Review procedure. In 1947 this was written into the Act of that year as part of the provisions for guaranteeing the prices and assuring the markets for the main products of British agriculture.

While this was developing, other less flexible features had been emerging elsewhere in the food and agricultural sections of the economy. A system of long-term contracts was built up between the British Government and Governmental agencies in exporting countries. Between differences in our bargaining power and differences in the internal and foreign policies of the supplying countries, the adjustments in prices made from time to time were of very different significance. By the end of the 1940's there seemed to be little pattern or order in the prices at which we were buying foods from abroad. The supplies available abroad played a part, too. Changing domestic demand in the supplying countries, the devastation of war and, here and there, agricultural upheavals of political origin, had resulted in many foods becoming scarce which had formerly been plentiful on world markets.

## Food Subsidies

Within Britain, the practice had grown up of selling basic foodstuffs to consumers at less than they had cost the Government. These losses, usually with the addition of some relatively small direct payments to agriculture, came to be referred to as the 'food subsidies'—a term charged with emotion lately. Producers and consumers thus came to look at each other through a kind of economic periscope. British and overseas suppliers had no direct look at each other, either. Moreover, after some fourteen years of food control and six or seven years of experiment before that, there were many consumers, parents of growing families, who had never known what it was to know the whole cost of the food they ate. At the same time, wage, salary and dividend policies together with family allowances and other social payments had greatly changed the distribution of income. All the old associations of income level, social history and buying habits, if they existed, must have been disrupted with consequent effects on the demand for food and other goods and services.

### Post-War Confusions

Thus the early 1950's saw a combination of features without parallel. The price pattern for imported products was muddled; supply prospects varied greatly from product to product; home agricultural prices had no particular relationship to those of imported products; neither was closely related to retail prices. Only a little straightening-out was feasible before the machinery of control began to be dismantled and the trade put in private hands. The face of the economic world had changed a good deal since the last time private traders had operated with their own money. In several commodities, too, the bulk stocks which the Government had built up to bridge the period of decontrol hung over the market and made merchants cautious. Finally, they were mostly deprived of the futures markets which, before the war, had registered the state of supply and demand throughout the world. Though some were re-opened by the end of 1953, their operators had to feel their way.

The trading operations of the Ministry of Food had provided an elegantly simple method of implementing the Government's guarantee of prices and markets to British farmers, irrespective of the prices and supplies of imported produce and the preference of consumers. When the Ministry ceased to trade, private traders could be expected to bring about an equilibrium between foreign and home supplies and demand, though conditions might be a little irregular to start with.

This is very different, though, from implementing the guarantee to the farming industry. For the problems which have to be solved to do that, it might be wiser to look back to the 1930's and to study the debates, commendations, and criticisms of those days, than to look with too much satisfaction at the successes—against quite different problems—in the 1940's and 1950's. And this view does not depend on assumptions about world surpluses of food being just round the corner!

One hopeful feature of the scene, new since the pre-war days, is the procedure for dividing up any differences of opinion into small parcels which, in the form of the 'Review Procedure', has grown up between farmers and Government since the early days of the war.

It is a pity that no comparable example of effective consumer participation seems to be in sight.

### Testing Time for Co-operation

This co-operation between the farmers and the Government is likely to be tested during the next year or two over the interpretation of the terms of the guarantee in the 1947 Act. To interpret it as a guarantee of a good price for any amount of any product, of any quality, sold at any time, anywhere, would be palpably absurd. But how far from this does the sensible practice lie? Though proposals for combining a guaranteed national average price with freedom of marketing have been condemned in some quarters as a negation of the guarantee, very diverse interpretations have been operated concurrently and amicably from the beginning of the Review procedure. Thus, speaking broadly, the general guarantee to the industry applies fully only to farmers, if there are any, whose output is a miniature of the national output. Specialists in one product tend to fare well or badly according as national production of their product

is to be expanded or contracted. Egg and, later, milk producers have met the discomforts of this and pig producers the comforts.

Again, oat and barley growers have had to be content with a guaranteed minimum price whereas pig producers have had fixed prices, at least for some years. Wheat growers also received virtually a guaranteed fixed price provided their seasonal sales followed the national pattern fairly closely, those who marketed early getting less and those later, more. The possible divergence from the general level of the guarantee is increased still further when grade differences are added to seasonal ones, as they are for beef cattle.

Such a situation is a veritable breeding ground for debating points since no absolute standards of right or wrong, justice or injustice, present themselves. Some may always be mere debating points, others may be pressed strongly if bad times threaten, either generally or for a particular section of the industry.

*Several awkward issues are already in sight, for example soft wheats were used before control ended—and the country can ill-spare dollars for North American wheat. Should the grower, therefore, suffer if millers pay low prices for soft wheat? If there is a glut of cattle in late summer and prices fall, should the farmer take the whole impact, or should the taxpayer share it?*

The announcement of the outcome of the February 1954 Annual Review seems to leave all these problems and uncertainties about as they were before. The proposed profitability of the industry is not sharply different from the past. How the various proposals for supporting prices will work out for the individual farmer—and for the Government and taxpayer—is still speculative. However, the Government now has a much smaller say than it had previously in what inputs a farmer will use and what they will cost him. Consequently, a farmer can less afford to look no further ahead than the guarantees cover him. Or perhaps that is illusory. To quote one successful farmer . . . 'The guaranteed prices are the foreman's affair; the farmer must always try to look further ahead than that'.

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**BRITAIN MUST CO-OPERATE** *(continued from page 306)*

ensuring by their import and investment policies that trade is always balanced at the highest level. This ideal is inconceivable without American co-operation.

Only if it is decisively proved that the United States will not co-operate in a common economic policy must the various unsatisfactory alternatives be considered. It is precisely their shortcomings that make a joint economic system in the free world of overwhelming importance to Britain and to the whole Commonwealth. Canada is already a part of the dollar area. Australia and New Zealand have no desire for a system which sets permanent limits to American trade and investment. The new dominions of Asia need access to American capital and to American reserves of food. The emergent realms in Africa and the West Indies will be similarly short of food and resources for development. There is a grave risk that those who advocate the severing of British economic links with the United States implicitly foster the severance of Commonwealth ties as well.

# American Farm Production and Price Prospects

ANOTHER large crop harvest is in prospect this year given favourable weather, despite curbs on acreage of several major crops.

Plantings of 59 principle crops are estimated by the Department of Agriculture at 356.5 million acres, only 2.7 million under 1953. With no restrictions on their use, some 20 million acres diverted from cotton, wheat, and corn are being planted to other crops, mainly soybeans, flaxseed, oats, barley, grain sorghums, and rice. Also tending to keep plantings high is the fact that producers may under the government programme secure price support on a specified crop, even though they do not comply with restrictions for other controlled crops grown on the same farm.

Many farmers who feed most of their corn production have little interest in price support on that crop and are expected to plant about as much as last year. In addition, continued price support at 90 per cent of parity on the basic crops will encourage farmers to use more fertilizer and other intensive crop practices.

Despite the generally favourable crop outlook, drought and dust storms have hurt prospects in some areas. Conditions are particularly serious in the Southwest and Central Great Plains, and were mainly responsible for the Department of Agriculture reducing its estimate of the winter wheat crop, as of April 1, about 10 per cent below last December's forecast. Since then rains have provided some relief.

According to the Soil Conservation Service, most of the 3.5 million acres put under the plough since 1942 in five southwestern states, where the drought is most acute, should never have been put in crops anyway. This uneconomic cultivation is one of the bad results of high price support policies and other farm subsidies. Not only did this extra crop production aggravate present surpluses, but ploughing of the land made it vulnerable to dust storms and loss of valuable topsoil.

### Crop Storage Problem

Due to large carryovers of old crops, particularly corn, wheat, and cotton, coupled with prospective heavy production this year, agriculture may be faced with its most serious storage problem in history. Even last year storage facilities were stretched to the limit, and in some areas price support temporarily was permitted on grain piled on the ground or in structures normally considered unfit for storage. Another emergency measure was the use of 125 merchant ships of the reserve fleet to store wheat.

In order to encourage the construction of new and the expansion of existing storage facilities, the Congress last year authorised accelerated amortisation of the cost of new warehouses built by co-operatives and commercial warehousemen. In addition, the Department of Agriculture has extended through June 30, 1955 its programme of lending the money to build more on-farm storage facilities. Much of this additional capacity,

*From Monthly Letter, National City Bank of New York, May 1954*

however, is not expected to be available in time to be used this year. As a result, the Department of Agriculture has purchased additional storage capacity and has arranged for the use of more ships. In an effort to ease the squeeze of CCC and commercial storage, the Government announced that farmers holding certain 1952 and 1953 crops under loans and purchase agreements will be permitted to reseal these commodities and earn a storage payment equivalent to commercial warehouse charges for so doing.

**Price Decline Levels Off**

Average prices received by farmers in mid-April, as computed by the Department of Agriculture, were only slightly below a year previous and some 3 per cent above mid-June 1950, just before Korea. Farm costs, however, were slightly above a year earlier, thereby reducing the overall 'parity' ratio of prices received by farmers to prices paid from 92 to 91 per cent.

While corn and wheat generally have been selling well below support levels, non-supported hogs, which two years ago were selling around 76 per cent of parity, sold in mid-April at 128 per cent. The high price reflects the cut in hog numbers resulting from low prices in 1952, demonstrating that the law of supply and demand is still effective when permitted to operate. Had a hog price support programme been instituted, the CCC today might be loaded with surplus pork and lard among its other inventories. In all likelihood, hog producers today would be receiving sharply lower prices.

Cattle prices, despite a further upturn in numbers to a new high, have shown encouraging strength. Reflecting reasonable retail prices, consumer demand for beef has continued strong and kept stocks low. While the Government last fall and winter purchased 865,000 head of cattle to lessen the strain on markets, it now appears that the cattle industry, barring a severe drought, is on its way to solving its problem without reliance upon direct supports on live cattle.

Overall cash receipts from farm marketings, totalling about $6,600 million during the first quarter of 1954, were 3 per cent below last year. With farm costs likely to stay high, farmers' net income this year is expected to run about 5 per cent under the 1953 figure of $12,800 million. Although marketings may approach last year's level, average prices received by farmers may be lower because of depressing surpluses. Lower supports for some items, particularly dairy products, also may cut net income. The most important factor bearing on farm income will, of course, be the trend of general business during the year.

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**CANADA'S OBJECTIONS to STERLING-AREA DEAL** (*from page* 313)

As is well known, these Agreements substantially increased the Empire preferences to a large extent by raising the tariff structure applicable to the United States and other non-Empire countries. In other words, the pursuance of unreasonably protective policies by the United States might again lead Canada to make a special deal with Commonwealth countries. But such a policy has many disadvantages, and could only be regarded as a choice between two very unsatisfactory alternatives.

# Canada's Objections to Sterling-area Deal

THERE are serious objections to a special trading deal by Canada with the United States, but there are also very real difficulties about making special arrangements with Britain and the rest of the sterling area.

The reasons are obvious. About two-thirds of Canada's total trade —import and export—is with the United States. The bulk of foreign investment in Canada is American and there are many intercompany connections between the two countries. Canada's industrial system is essentially North American in organisation and in equipment. Moreover, Canada normally runs a substantial current deficit in her transactions with the United States.

Membership in the sterling area for Canada would involve, as it does for the present members, rationing the use of U.S. dollars and the associated discrimination in favour of sterling and non-dollar goods. Such a policy would inevitably have the effect of raising Canadian costs—costs of production and costs to consumers. There are some who contend that Canada has a high-cost economy today. It has, however, been subject to the cold wind of U.S. competition during most of the post-war period, and there is no doubt that it would be a higher-cost economy had it been part of the sterling area.

It is sometimes proposed that Canada should lend Britain money to buy Canadian goods or, what is essentially the same thing, that Canada should agree to carry sterling balances up to a stated maximum amount. There is of course no essential objection to such an arrangement as a transitional measure, provided that Canada wishes to advance the funds and that Britain wants to borrow them and to buy the goods which Canada might wish to sell. But these are serious questions and none of them can be readily answered in the affirmative. As matters stand today, Britain gives a large degree of freedom to her importers to make dollar purchases for home consumption of such essential goods as wheat, metals and lumber. It is questionable, however, whether she would be willing to borrow in order to purchase commodities less essential from a British point of view.

### Remembering GATT

A special tariff deal with the Commonwealth designed to increase the Empire preferences would run counter to GATT and from this point of view is open to much the same objections as a special deal with the United States. But unlike a special deal with the United States, an increase in the Empire preferences would probably have the effect of raising Canadian costs, since in fact it would probably result in higher tariff rates against other countries.

Nevertheless, it is conceivable that circumstances might arise in which Canada would be prepared to make a special trade deal with the Commonwealth. Such circumstances did arise in the 'thirties when the enactment of the Smoot-Hawley tariff by the United States as the depression was gathering way was a major influence in persuading Canada to take a leading part in negotiating the Ottawa Agreements.

*(concluded on opposite page)*

*From Canada's Trading Problem, Monthly Review, Bank of Nova Scotia, Toronto, April 1954*

# Capital for Colombo-Plan Countries

BY FREDERIC BENHAM

## I. LIMITS OF ABSORPTION

WHAT are the limits, if any, to the amount of external capital which a country can absorb?

One view is that these limits are rather narrow. This view is apparently supported by what happened during 1950-51, when most countries in the Colombo Plan used only a small part of the external capital that was available to them, and financed their development activity almost entirely from their own resources. But the short-lived prosperity of 1950-51 took them by surprise, giving them large budget surpluses unexpectedly before their plans for many projects were ready or before the necessary preparatory work had been completed. Moreover, at that time many capital goods could be imported only after a long period of waiting; sometimes delivery dates were years ahead and even so they were not always kept. Should a similar commodity-boom take place again it would find the area much better prepared and able to use a much larger amount of external capital if it were available.

### Potential Capital Absorption

The amount of external capital which would yield a certain minimum return in terms of money may be very limited. There may be few projects which would be self-liquidating if financed by, say, a 20-year loan at 5 per cent with repayment of capital spread over the life of the loan. (These are the typical terms on which the I.B.R.D. makes loans.) But the question, as I understand it, relates to the amount of capital which could be absorbed, without waste, in expending output or improving social conditions, irrespective of its money yield.

The belief that only a limited amount could be absorbed rests on the assumption that the administrative and technical staff of a government can plan and supervise only a certain number of projects without confusion and delays and waste; that only a certain number of trained workers are available for the various skilled and semi-skilled tasks required; that the existing transport systems can handle only a certain amount of traffic; and that housing, power supplies, water supplies, and other services are restricted in any given area.

But if unlimited capital were available free of charge, a country could draw on the resources of the whole world. It could import experts and skilled workers. It could engage foreign firms of consulting engineers to draw up plans and specifications and it could then put projects out to tender. This is being done by Burma, for example. If need be, a firm of foreign contractors could be given a free hand to bring in their own supplies (like an invading army): they could, for instance, build houses for their workers near the site of each project, construct roads to transport their materials and equipment, and feed their workers on imported food. By such means, very large amounts of external capital could be absorbed.

*From The Colombo Plan, Economica, London, May 1954*

Of course this is a far-fetched hypothesis and, even so, the larger the number of countries adopting such a policy the more difficult it would be for the rest of the world to supply them all with the skilled workers, equipment, and materials which they needed.

Nevertheless my own view is that in practice it will be quite possible for the countries of this area to absorb all the external capital which can be provided. Their governments can use consulting engineers and private contractors and can import experts, and possibly skilled workers, meanwhile training more of their own workers.

## *II. RATE OF RETURN ON INVESTMENT*

I turn to the question of whether the rate of return on capital is higher in this area than in western countries.

We cannot take it for granted that because capital is scarce relatively to labour the rate of return must be high. Most countries in this area suffer from three disadvantages. Their home markets are too small, in terms of purchasing-power, to support large-scale establishments, yet in some fields large-scale establishments are much more efficient than relatively small units. They can offer a new firm fewer external economies than more developed countries: they are relatively short of means of transport, power supplies, repair facilities for machinery, and so forth. Their workers are comparatively unskilled and therefore, despite low wages, labour costs tend to be high.

These disadvantages apply especially to manufacturing. They will become less as time goes on, for the development programmes will tend to expand the market (by increasing the agricultural surplus above the needs of the cultivators), to create some external economies, and to train more workers. Moreover, their extent varies between countries. It is obvious, to take an extreme example, that a modern integrated steel plant would not pay in Ceylon. But India is a large market, with rich iron ore and coking coal; there seems no reason why its steel output, at present around a million tons a year, should not substantially expand. It is somewhat disconcerting, however, that India can and does import locomotives considerably more cheaply than she produces them at the Chittaranjan plant (which cost at least £12 million); this situation may possibly improve as her workers become better trained.

The returns to capital employed in the more efficient estates and mines, producing in many cases for the world market, and employing most of their workers on tasks at which they can easily and quickly be trained to a fair standard of efficiency, are comparatively high.

Probably returns to capital would be high in the field of public utilities if private enterprise were given a free hand, allowed to confine its investment only to profitable areas, and permitted to charge monopoly prices. This, however, is against public policy; and over most of the area public utilities are owned and operated by governments or other public authorities.

In other fields of public investment we must distinguish between the direct money return to the government and the expansion of national output or social services. An irrigation project, for example, may bring

about an expansion of output equivalent to a very high return on the capital investment, but the government may levy only low charges for irrigation water and may thus get only a low return in money revenue. For other projects which benefit land and increase its yield, such as flood control projects or measures against soil erosion, the government may levy no charges at all on the landowners or cultivators who benefit. The reason is doubtless a reluctance to impose burdens on the peasants, who are very poor. But if a project is worth while, the peasants receive substantial benefits: they could afford to pay enough to give the government a fair return on its investment and they would still be better off than before. There seems no good reason for subsidising, in effect, the cultivators who are fortunate enough to benefit from such schemes, at the expense of the general revenue. Governments need all the revenue they can get in order to improve economic and social conditions.

Education is usually subsidised by the government. But in the Philippines it is largely left to private enterprise, and it is a curious fact that in that country private investment in schools, universities, and other educational institutions yields a high return, revenue being derived entirely from fees.

## Risks for Capital

It is possible that a good deal of private investment, for example in trading enterprises, service industries, and some types of manufacturing, involving relatively simple processes, would yield a high return if the management were given a free hand; the average returns to such private investment in Malaya, British Borneo, and Hong Kong are fairly high. But the foreign investor is still rather wary of tying up his capital in the East. There is the risk of war or revolution or other disturbances: his property may be damaged or confiscated. There is the risk that the government may depreciate the currency, or impose special taxes on foreign capital, or block his profits, or control his prices, or compel him to employ a number of their nationals in managerial posts, and so forth.

Most governments in the area have attempted to allay these fears. They have declared that they will not discriminate in any way against foreign capital, and that both profits and capital can be remitted back freely; and some of them are offering special inducements, such as tax reliefs and generous depreciation allowances, to new private investment in approved fields.

Nevertheless, the general feeling in most countries of the area is that they are doing private external capital a favour by allowing it to enter, and that foreign firms should allow local capital to participate, should employ local personnel in some or most of the higher-paid posts, and in general should assist the government in its policies. The foreign investor, who can get a fairly high return in his own country without the political and security risk of investment in the East, is often not attracted; and so far the inflow of private external capital has not been very large. It is possible that various devices, such as participation with governments in specific undertakings, and insurance provided by the governments of the investing countries against certain risks, may give it some stimulus.

My general conclusion is that on the whole yields are higher than in

western countries, although in some fields this applies to returns in terms of national output rather than in terms of money, and that yields in general are likely to increase as more workers are trained and more external economies become available.

* * *

Although the original Colombo Plan figures have now gone by the board—plans and priorities have been revised, costs have risen, other countries have joined—it is relevant to note that it was realised from the start that nearly half the finance required would have to be provided by external aid. The total expenditure on the programmes was estimated at £1,868 million. (India £1,379 million, Pakistan £280 million, Ceylon £102 million, Malaya and British Borneo £107 million.) It was estimated that external aid of £839 million would be required plus releases of £246 million from sterling balances.

Today the need for external aid is greater than ever.

## LABOUR STANDARDS IN INTERNATIONAL COMPETITION

*International Chamber of Commerce Views*

The International Chamber of Commerce regrets the injection into trade and tariff policy negotiations and discussions of the notion of labour standards in international competition.

In so far as a domestic industry may justifiably be protected against foreign competition through Customs tariffs, the rate of duty should be related to the price at which the goods are sold in international trade and not based on a comparison of isolated factors entering into the cost of their production. The level of wages is in fact only one of many cost factors, and if all these cost factors were to be artificially equalised throughout the world, one of the main reasons for exchanging goods internationally and for international specialisation would go by the board. High wages, moreover, do not necessarily mean high prices nor low wages low prices, since levels of productivity differ widely from one country to another.

It should also be remembered that conditions and standards of living vary greatly and that what may appear a low or inadequate wage in the eyes of one country, in terms of money at the prevailing often artificial rate of exchange, may be adequate or even high in the country where it is paid.

For these and other reasons, the I.C.C. believes that international discussions of wages and labour conditions should be left to the efficient efforts of the International Labour Organisation, on which business and labour are largely represented both nationally and through their international organisations.

*From Statement on International Economic Policy, adopted by International Chamber of Commerce, April 13, 1954*

## HIGH LEVEL OF U.S. COMMODITY STOCKPILES

The United States stockpiled critical and strategic materials for military and civilian needs valued at $4,226 millions by the end of 1953.

This represented about 62 per cent of the stockpiling goals of the United States, covering some 75 commodities. In addition, the United States, as of December 31, had $879 million of materials under contract and scheduled for future delivery. Present U.S. plans call for an eventual stockpile valued at nearly $7,000 million based on prices prevailing last December.

Materials have been stockpiled to anticipate not alone military needs, but civilian consumption as well. While large purchases have been made, and are continuing to be made from foreign nations, it is hoped ultimately the U.S. can reduce 'a dangerous and costly wartime dependence upon foreign sources of essential raw materials'.

Among the important items on the strategic list are beryl, largely imported from Brazil; chromite, from Africa, India, and the Philippines; copper from Chile, cordage from the Philippines, diamonds from South Africa, manganese ore from India and Africa, mercury from Spain and Italy, palm oil from Africa, rubber from Malaya and Indonesia, tin from Indonesia, Malaya and Bolivia, and tungsten from Korea.

*From Report, Office of Defence Mobilisation, Washington, May 20, 1954*

# World Production by A.D. 2000

## Sir Harold Hartley's Analysis

SIR HAROLD HARTLEY, F.R.S., giving the first Fawley Foundation lecture at Southampton University (May 20), said that assuming the world population rose to 3,250 million by the year 2000, food production would have to rise by about two-thirds, or a little more than 1 per cent a year compound, to feed people adequately.

In countries that enjoyed the advantages of science, mechanisation, fertilizers, and better strains, the output an acre was rising steadily and the yield from cereal crops might well be doubled by the year 2000. The real problem lay in Asia and in Africa, with their handicaps of malnutrition, land tenure and traditions, leached tropical soils and need of water. Higher output today was barely keeping pace with growing numbers. The gap between the richer and the poorer countries was widening; that was the alarming feature.

### Biggest Industry

In speculating upon the future he included agriculture, because it was the world's biggest industry. There was likely to be competition between food and industrial crops which would increase the importance of synthetic materials. The relative significance of food production was shown by the fact that roughly 70 per cent of the world's primary production went to food and 30 per cent to industry.

To estimate the world's requirements of industrial goods by the year 2000 was much more difficult. Purchasing power and capital funds would be the limiting elements. The years since the war had been abnormal, and an annual growth of 3 per cent compound in industrial output was a likely guess provided we escaped the calamity of war.

This meant that output would have to rise 350 per cent by A.D. 2000, involving an estimated increase in energy consumption of 125 per cent and of raw materials of 300 per cent, allowing for economies in manufacture.

### Limiting Factors

Referring to the extent to which water, energy, metals, and minerals were likely to become limiting factors affecting agriculture and industry, Sir Harold Hartley said that the availability of water would determine the future location of cities and industry and the size of industrial concentrations. Surveys and planning were needed to ensure that the utmost use was made of our water resources.

By the year 2000 there would be no global shortage of energy, although its availability might determine where development took place. In 1950 the world's consumption was equivalent to 3,600 million tons of coal; in 2000, if industrial production had risen by 3 per cent a year, the demand for energy should be equivalent to 7,500 million tons.

More metals would continue to be used. Luckily, the world was rich in iron and aluminium, and on these two metals and their alloys our economy would increasingly depend.

*From The Times, London, May 21, 1954*

# Personal Income in Ceylon

## Important Study by Research Department of Central Bank of Ceylon

**Income Receivers—Distribution of Personal Income**

| Monthly Income in Rs. | No. of Income Receivers | % of all Income Receivers | Total Income | |
|---|---|---|---|---|
| | | | Total Income | % of Total Income |
| 0 — 25 | 165 | 9.66 | 2,544 | 1.39 |
| 26 — 50 | 454 | 26.58 | 17.344 | 9.46 |
| 51 — 75 | 360 | 21.07 | 22,089 | 12.04 |
| 76 — 100 | 221 | 12.94 | 18,844 | 10.27 |
| 101 — 125 | 165 | 9.66 | 18,481 | 10.08 |
| 126 — 150 | 86 | 5.03 | 11,661 | 6.36 |
| 151 — 200 | 105 | 6.15 | 17.942 | 9.78 |
| 201 — 400 | 116 | 6.79 | 31,261 | 17.04 |
| 401 — 700 | 19 | 1.12 | 9,852 | 5.37 |
| 701 — 1500 | 12 | .71 | 10,889 | 5.93 |
| over 1500 | 5 | .29 | 22,505 | 12.28 |
| | 1,708 | 100.00 | 183,412 | 100.00 |

In Ceylon, we do not have much information about the income and expenses of the average citizen.

We therefore welcome the Central Bank's survey of consumers' income and outlay. Its purpose was to ascertain the sources and dispositions of personal incomes of all classes of people. Certain other related data such as on education, housing, savings and debts were also collected.

The survey was restricted to randomly selected samples. The unit of enumeration was the household. The total number of households chosen for the enquiry was 1,100, comprising 87 per cent in the non-estate sector and 13 per cent in the estate sector. The sample was designed to represent consumers living in private households. Therefore persons living in sanatoriums, hospitals, hotels, restaurants and other institutions were excluded. 960 non-estate households and 140 estate households were selected for the study. As sometimes more than one family or 'spending unit' lived in the same house the study was made according to the households, the spending-units and income receivers.

The average size of the household was 5.34 persons and the average number of spending units to a household 1.12. Which means that some houses were shared by two or more families. The average 'spending unit', which may be regarded as the family, contained 4.77 persons. Since more than one person may be an income earner in the family or 'spending unit', the number of income receivers to a spending unit was 1.56. Therefore it follows that roughly one in every three persons is an income receiver. The table shows

*From Social Justice, Colombo, April* 1954

the proportion of income receivers in each income group and the proportionate earnings of each group.

## Inequality of Incomes

A cursory glance at these figures reveals the inequality of incomes that prevails among this representative cross-section of Ceylon society. At the top 1 per cent of the income receivers obtain 18.2 per cent of the total income. About 10 per cent (the upper tenth) of them receive roughly 40-45 per cent of the total income. The next 10 per cent receive just about a proportionate share of 10 per cent of the income. The poorer 80 per cent of these income receivers earn only 43.2 of the total income. The situation becomes worse as we reach the poorer income groups, for the poorer 50 per cent of the people receive from 15-20 per cent of the total income. The lower tenth, the poorest ten per cent, who earn less then Rs. 25 per month per income receiver, obtain only about 1.5 per cent of the total income. We thus see the contrast between the richest 1 per cent of these families who earn one fifth of the total income, and the poorest 10 per cent who earn about one sixty-sixth (1/66) of the total income.

In terms of persons and money it works out as follows. Taking roughly three persons as dependent on each income receiver, the first 1 per cent consists of 17 income receivers and about 51 persons in all. They earn a total monthly income of Rs. 33,394. This means that each of these persons has over Rs. 650 at his disposal for each month. On the other hand the poorest tenth of the population includes 165 income receivers and about 500 persons who together receive an income of Rs. 2,544. This leaves to each of these 500 persons roughly Rs. 5.08 for his monthly expenses. For his daily requirements he has therefore the paltry sum of 17 cts, whereas his more fortunate neighbour of the richest one per cent has about Rs. 22 for his daily needs.

Those who receive monthly incomes of Rs. 25-50 form 26 per cent of the persons surveyed. In this group, about 1,362 persons receive altogether a total monthly income of Rs. 17,344. When this is divided among them, each person has about Rs. 13 a month, or 43 cts. a day for his expenses.

Transferring these figures to the whole of Ceylon we find that whereas a few persons have about Rs. 600 for their monthly expenses, there are roughly 800,000 to a million who have to content themselves with Rs. 5.00 per month. The next 2,000,000 or so live on Rs. 13 a month or 43 cts. a day. Together they form about 3,000,000 of a total population of 8 millions, and their average income is 37 cts. a day!

This survey does not seem to be very far from the truth for similar conclusions may be found in the other surveys conducted earlier by Dr B. B. Das Gupta, 1936-1948, and in the survey of the 106 villages chosen from each Divisional Revenue Officer's division in 1950-1951.

## Earning and Spending

The survey calculates that the average Ceylonese receives Rs. 168 and spends Rs. 162 a month on all his needs. Of this Rs. 162, Rs. 97 is spent on food, Rs. 13 on clothing, Rs. 6 on housing. But averages are deceptive in that the extremes can influence the figures very much. Certainly the richer people who earn over Rs. 500 a month spend very much more than Rs. 162 on consumption. But what is the plight of

the two million who receive about Rs. 13 a month, and the poorest million who live on Rs. 5 a month? If a poor man buys two measures of rice in a week at the price of 55 cts. he has to spend Rs. 4.40 of his monthly Rs. 5.00 on this primary necessity. Then where could he find the money for other foodstuffs such as eggs, fish, vegetables, condiments? Even if he were to spend less on rice and a little more on vegetables, condiments and other food items, where is the money for him to buy a sarong for himself, or a cloth for his wife, or to repair the house in which he lives, or in order to meet the expenses connected with the free education of his child? Nor are those who receive Rs. 13 a month very much better off as regards these absolutely bare essentials of life.

The sad conclusion is that in Ceylon whereas a few may live in enviable conditions of life, and a good proportion of the people may be able to meet their ordinary expenses without grave inconvenience, about three million people are unable to obtain the food, the clothing and the housing they require.

The surveys of income according to educational standards and according to occupations also point to the same inequality in the distribution of wealth and poverty of the uneducated agricultural worker.

**Income According to Educational Background**

| *Education* | *No. of Income Receivers* | *Average Monthly Income* |
|---|---|---|
| No Schooling at all ... | 597 | 59 |
| Primary Schooling only | 846 | 94 |
| Secondary Schooling ... | 205 | 214 |
| Passed S.S.C. ... ... | 27 | 295 |
| Higher Education ... | 33 | 504 |

As the bank report notes, this great difference in incomes received at different educational levels is a feature which is much less noticeable in the heavily industrialised countries, where the standard of living even of the illiterate, unskilled labourer is much higher than that of his counterpart in Ceylon.

## Occupations and Income

The occupational analysis of the distribution of income shows that 49 per cent of the people surveyed work on the land, and receive 39 per cent of the total income. The most profitable of the occupations among these families are commerce and transport in which each income receiver earns an average monthly income of Rs. 292 and Rs. 248 respectively. The lowest income is registered for miners and domestic servants. About 9.4 per cent of these persons are employed as domestic servants and receive an average income of Rs. 75 per month.

An average monthly expenditure of Rs. 162 was thus distributed.

| | Rs. |
|---|---|
| Food ... ... ... ... | 97 00 |
| Clothing ... ... ... ... | 13 00 |
| Housing ... ... ... ... | 6 00 |
| Transport ... ... ... | 4 00 |
| The Rest ... ... ... | 42 00 |
| | 162 00 |

Of an average income of Rs. 168, they spent Rs. 162 on consumer goods and saved Rs. 6. The high proportion of total income spent on food—nearly 60 per cent—is an indication that the standard of living is rather low. Nearly 40 per cent of the amount spent on food was used for buying rice and other food grains, whereas three persons spent only about Rs. 3 a month on meat and eggs. This too is an indication of the rather low nutritive value of the diet of the average Ceylonese.

# How the Prophets Emerged

## Comparing Forecasts of a Year Ago with Experience

In order to stimulate further discussion and study of the problems of economic forecasting, the Royal Statistical Society, in February of last year, invited a number of academic and business economists to forecast five key indices for 1953.

### Personal Expenditure (at 1948 prices)

During the recession year of 1952 'real' personal expenditure fell by 1.3 per cent. For 1953 the economists forecast a rise of 0.78 per cent; the actual rise of almost 4.0 per cent was five times as great. In asking what went wrong, it is fair to remember that this forecast was made before the 1953 'incentive' Budget, which introduced tax and other concessions specifically designed to revive home demand. It is therefore not surprising that expenditure on personal consumption rose well above the level of the forecast.

### Industrial Production

The Economic Survey 1954 remarks that 'The recovery of home demand . . . aided by . . . the Budget . . . raised output considerably'. Nearly three-quarters of this increased output was, in fact, called forth by the increase in personal consumption. Their low estimate of the latter naturally led the forecasters to under-estimate the increase in production, which actually rose in 1953 by 6 per cent, as against a predicted increase of 2.4 per cent.

### Volume of Exports

The economists' average forecast was remarkably accurate, the prediction for the year being 98.0 per cent of the 1950 volume, against an actual result of 98.1 per cent.

### Retail Prices

The average index for 1953 was 140—exactly the same as the figure predicted.

The Interim Index of Retail Prices had remained fairly steady during the second half of 1952. The 3 per cent rise in 1953, mainly due to higher food prices following the reductions in subsidies, was, perhaps, not surprising; but, as in the case of the volume of exports, the size of the increase was forecast with remarkable accuracy.

### Number of Unemployed

During 1952, when industrial production was declining, the number of unemployed averaged 2 per cent of all insured employees. Since production was generally expected to rise during 1953, it is at first sight difficult to see why the forecasters did not predict a corresponding fall in unemployment.

In 1952, however, the fall in production was reflected partly in a rise in true unemployment, and partly in a rise in short-time working (concealed unemployment). In making their 1953 unemployment forecast, the economists probably reckoned that the rise in production would be sufficient to reduce concealed unemployment, but not great enough to reduce true unemployment below its 1952 level.

As it turned out, the rise in production was greater than predicted, and, consequently, the unemployment position was also more favourable than the forecasters expected.

*From Westminster Bank Review, London, May 1954*

LEST WE (AND THEY) FORGET

# Africa's Debt to Business Men

BY LORD MILVERTON
(*Governor of Nigeria*, 1943-7)

*Few, if any, of the rich resources which today give Africa an important place in the economic affairs of the world would, or could, have been developed without the skill, capital and enterprise of European business.*

THE development of modern Africa owes everything to 'business' and its manifold operations. The European has supplied the enterprise, capital, skill, brains and experience without which the miraculous transformation of the past fifty years could never have taken place. Everywhere it has been the activities of 'business' that stimulated even the control and the conscience of Government.

It is true that Africa has struck its tents and is on the march, but the awakening from centuries of stagnation has been caused by the impact of Western finance and the dynamic energising force of the European trader and agriculturalist and miner. It is he who has created industries—above all mining industries—and export trade, and in so doing has created a revenue from which the beginning of civilisation for the African could come about. The intervention of the white man has done what the native African Governments never succeeded in doing. It has maintained peace and established a basis for social development. Philanthropic motives came after economic interest and, apart from certain strategic exceptions, colonies were taken in hand for the profit of Europeans both as consumers of exports and as importers of goods the people can be induced to consume. The trail was blazed by traders and missionaries from whose twin operations arose colonial policy and an increasing sense of moral responsibility for the welfare of the people whose own social and economic system was increasingly disrupted by these commercial and religious invaders, or, as in much of Central and South Africa, by these immigrants into empty lands whose presence and dynamic energy soon acted as a magnet to draw African labour from neighbouring countries.

## Exploitation and Civilisation

However one may define progress, it is now generally appreciated that material betterment is essential before education can do its work, before Africans or any other people can develop their faculties and before leisure can be put to the proper use which is implied in civilisation.

*Development is exploitation in its good sense, not exploitation of human beings, as in the slave trade, but exploitation of the natural resources hitherto lying unused and their utilisation for the benefit of all, and, combined and parallel with it, exploitation of the latent capacity of the individuals who form the community concerned.*

It would be easy to bury the

*From Progress, Magazine of Unilever Ltd., London, Spring 1954*

reader under a flood of statistics illustrating the change in material circumstances which has been wrought in the fifty-three years of this century by European effort, by the fertilizing influence of trade and capital applied to development.

The contribution of 'business' to the development has carried a continent in fifty or sixty years from the dawn of history to the breathtaking achievements of today, from the invention of the wheel to the complicated skills of the mining industry of Rhodesia and South Africa and the plywood factory of The United Africa Company in Nigeria. But in contemplating progress one must not forget the closely linked complexity of the problems that lie just beneath its surface and periodically disturb a government which often appears to be as bewildered and unprepared as the African for whom time has telescoped 3,000 years into half a century.

### Statistical Examples

In 1902 the revenue of Kenya and Uganda combined was about £133,000 and in 1952 it was about £35,000,000. Exports from the two territories in 1902 were valued at about £200,000 and are currently running at £75,000,000. In 1905 the cotton exports from Uganda were 10 tons. In 1952 they were over 65,000 tons. Exports of coffee in 1913 were 600 tons. Today they are in the region of 44,000 tons. Exports of coffee from Kenya in 1913 were 250 tons, in 1952 they were 17,000 tons. In 1920 the export trade of Tanganyika was valued at £1,300,000, in 1952 it was £48 million. In 1938 the value of the total imports for Kenya, Uganda and Tanganyika was £848,000 a month, in 1952 it was £10 million a month. In Northern Rhodesia in 1952 the production of copper reached 300,000 tons valued at £75 million. In Southern Rhodesia the gross value of secondary industrial output now approaches £100 million per annum, and native production of cotton rose from a few hundred thousand lbs in 1945 to 8 million lbs in 1952. Local spinning mills supply local factories which produce all kinds of cotton goods and sell them as far afield as South Africa and Nigeria. There is a similar story to be told of tobacco and food-stuffs. Everywhere in Africa statistics relate vast material progress under the stimulus of European 'business' enterprise. The trade figures for West Africa are equally illuminating and the revenue of Nigeria has risen from £4 million in 1913 to £45 million in 1952.

### Conditions of Progress

If we look closely at what has been achieved in Africa during the past fifty or sixty years two major facts emerge, firstly the supreme importance of mineral resources and secondly the truth that man cannot be saved by money alone. In other words, you cannot have progress in water-tight compartments, and if economic progress is to be stable it must operate in a social and legal framework suited to it, while its pace is finally limited by the quantity, quality and efficiency of the whole population.

Any writer on the subject must echo the acknowledgement made by Lord Hailey in his monumental work *African Survey* to Professor Frankel and to the comprehensive ability of his book *Capital Investment in Africa*. As Professor Frankel has emphasised, the modern economic history of Africa dates from the mineral discoveries in the southern

part of the continent. They inaugurated the investment of foreign resources and the revolutionary processes through which Africa is being incorporated in the income-creating activities of the world. It is gold and diamonds that have given South Africa the means to combat agricultural conditions. In Africa Mother Earth is not the benignant deity of civilised imagination but a malign repellant and forbidding power waiting to be tamed, and up to date the necessary resources have come from mineral development.

As has been well said, Africa is not a treasure-chest to be opened but a tropical farm to be developed, in the face of most adverse natural, climatic and social conditions. It is true that the future economy of most African territories must be predominantly agricultural, as it has been in the past, but one may also ask where Africa would be today without the product of its mines. Many mineral resources still await discovery and development and the uranium of the Belgian Congo is already one of the most important world supplies.

**South Africa Dominant**

The agriculture of South Africa has a base of gold, and it is due to its mineral wealth that the Union of South Africa is more highly developed than any other part of Africa and has been able to do far more for African welfare than any other part, despite its much criticised racial policy. The Union of South Africa dominates the African scene. It is estimated that of £1,222,000,000 external capital investment in Africa 77 per cent went to British territories and of this £523,000,000, or 43 per cent of the total belongs to South Africa, which is in addition also the only country rich and strong enough to provide capital locally for investment in scientific agriculture. It is also the only country as yet which has a substantial concentration of industrial production serving an internal market.

There are only three independent countries in the area we are considering—Ethiopia, Liberia and the Union of South Africa. It does not require long consideration to decide which has done most for its people of whatever race and colour, nor where the economic leadership of Africa really lies. It may well be that in the next generation the mantle of leadership will be inherited by the new Central African Federation if all the hopes centred in it are fulfilled.

**Fifty Years Ago**

The twentieth century opened the era of constructive and creative activity by Western powers in Africa. Let us glance at what problems they found and how they dealt with them. It was a continent of poverty, ignorance and ill-health, a relatively sparse population mostly pastoral and agricultural with limited wants, difficult of access and infested with virulent tropical diseases, no navigable rivers except the Congo, few natural harbours, an absence of roads and railways, poorly endowed soils, vast tracts made uninhabitable for man and beast by tsetse fly, no knowledge of mechanical power, no law and order, primitive social and economic organisation, no concept of production for purposes of exchange. The African had little to offer and little to demand from the trader and had no habit of industry in the Western sense. He was preoccupied with the difficulty of living, and the maintenance of food supply was the primary occupation of the

tribe and was a socially organised concern. He was ridden with superstition and governed by fear. His work was a function closely integrated into the religious and social fabric of his tribe. The doors of personal opportunity were fast shut upon him. It was the advent of the European trader that first broke through the darkness of centuries and began the process of enlightenment which has gathered such speed today.

## The Picture Now

Now let us glance at the picture today. The positive achievements are immense. Africa is still mainly a producer of raw materials, the increased demand for which has depended largely on a rising standard of life in Europe and America. The organisation of this trade, the protection of producer interests and the creation of marketing facilities has been the work of Europeans, business men with a keen appreciation of the value of fair trade. As a broad generalisation one may say that West Africa has developed on a basis of African primary production with the export business in the hands of non-resident Europeans, while in East, Central and South Africa there has been an increasing settlement of Europeans who have made the country their home and have entered into every walk of agricultural, trading and mining activity. But everywhere it is the European who has provided capital, technical management and organisation, marketing and transportation.

And now what of the African and the Government? The achievements of business are dazzling, but it is not possible to get a balanced picture of the part it has played in the development of modern Africa without some assessment of the effect on the African and the part played by him and by government. Throughout Africa all these achievements have been based and are based on African labour, and also to a large extent upon the provision by government of basic equipment for development —railways, roads, harbours, water supplies, education of every kind, but especially technical education, sane finance, security and political stability.

## Function of Government

As the tribal economy has broken down before the driving force of the European exchange economy, complex problems, social and political, have arisen and in some cases still defy solution.

The shift from subsistence agriculture to production for the market, the growth of population due to security, sanitary and medical science, and improved nutrition, the growing desire of the African to enjoy the benefits of the European system without appreciating the price in the social and industrial system of life, are problems which cannot be solved without the close co-operation of 'business'. Moral and material development must go hand-in-hand and it is probably fair to say that 'business', because its continued existence depends upon keeping its feet on the ground, has often over the past fifty years seen the difficulties and their possibilities of solution more clearly than government. It is also fair to say that had government taken 'business' more into its counsels many mistakes of the heart might have been avoided by better liaison with the head. There is here a reservoir of practical experience and knowledge of the African which has never been adequately tapped.

# Japan's Competitive Power

BY HESSELL TILTMAN

*Talk is being heard abroad about the menace of cheap Japanese goods and of sweated labour in Japanese factories. It is being heard again even before that nation's post-war trade drive gets into high gear. Simultaneously in Japan itself employers' organisations bemoan the fact that high wage costs and low productivity are causing their country to lose in the fight for export markets. Which side is right? And how cheap can contemporary Japan become?*

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THE following figures, imperfect as they are, will help to correct the impression many Japanese industrialists seek to spread that organised labour is considerably better off—and the gap between labour costs in Japan and Britain substantially narrowed—compared with pre-war days.

Before 1941 Japanese goods were priced low for a variety of reasons, including Government subsidies, selling below cost, efficiency of organisation, 'interlocking' systems between banks, commercial houses, factories, and shipping firms, depreciated currency, and a standard of living lower than any Western trade union would tolerate for five minutes. Rationalisation played its part in keeping production costs down. So in the all-important textile industry did the widespread use of girls as workers. In Japan, in 1936, 85 per cent of all mill operatives were young country girls, the bulk of whom were paid in cash about 1s. 4d. daily.

*The 'double pricing' system, the girl workers, and the low standard of living are still there. Rationalisation is again under way—upon completion of a three-year renovation plan in iron and steel 56 per cent of the plant in the industry will have been modernised. Interlocking combines are being reconstituted by the resurgent zaibatsu firms. Subsidies have reappeared in the steel and shipbuilding industries. And there is in Tokio ever more talk of an early 'unavoidable' devaluation.*

Will such developments suffice to bring back the 'cheap goods' that were the nightmare of the West before the war? Both the cost of living and the cost of labour have risen compared with fifteen years ago, and the country's advantages over the West in manufacturing costs has narrowed—but not very much.

## Low Productivity

The Japanese Ministry of Labour calculates 'unofficially' that the overall percentage of wages represented in the sum total of production in all manufacturing has risen from 8.2 per cent in 1940 to 11.8 per cent in 1952. Taking 1934-6 as 100, real wages in manufacturing have risen from a post-war minimum of 30.2 in 1947 to 107.3 in 1953. Productivity of Japan's workers remains low by comparison with Western nations. Taking 1935-8 average as 100, labour productivity over the whole field of mining and manufacturing in Japan in 1952 (the last year for which complete figures are available) stood at 99, compared with 152 in the United States and 127 in the United Kingdom.

The 'Yearly Economic Report,

*From Cheap Goods from Japan, Manchester Guardian, May 18 and 19, 1954*

1953', of the official Economic Council Board states that coal production per man-day (underground and surface) fell from 0.71 tons in 1931 to 0.45 tons in 1951. Production of steel per man-month in Japan is slightly above pre-war but still little more than half the British figure—3.93 tons in 1952 for Japan compared with 7.08 tons in the United Kingdom. Textile output makes a better showing—labour productivity figures for the ten largest spinning companies for 1951 were 7.3 pounds (in 21 gauge yarn) per worker-hour compared with 5.2 pounds in Britain. 'But the (cash) wage in Japan', reported the *Oriental Economist* recently, 'was only one-tenth that paid in the United States and one-third of the British. Consequently the labour cost per pound came to only 1.8 United States cents as against the 8.6 cents and 7.5 cents respectively in the United States and Britain.'

Even so—and in spite of the fact that of the spinning industry's labour force of 116,000 some 43,000 (in May, 1953) were girls under twenty years of age and a further 16,795 were women under thirty—the average monthly wage in the industry of £19 12s. for males and £9 2s. for females (November, 1953) was substantially higher than in most other manufacturing industries.

## Wages and Output

According to figures supplied by the All-Japan Cotton Spinners' Association, taking 1934-6 as 100, the percentage of labour costs in the industry has risen to 156.3. The association estimates present average monthly wages (both male and female) in the principal textile-producing nations, in Japanese currency, at 78,022 yen per worker in the United States, 30,139 in Britain, 21,398 in West Germany, and 12,711 in Japan. Processing 100 pounds of cotton yarn is said to require 6.59 labour-hours in the United States (1949), 15.99 in England (1946-9), and 13.70 in Japan.

In steelmaking, the *Oriental Economist* recently reported, 'because the wage level in Japan is low the labour cost per ton of steel ingot is only $14, as against $22.50 in the United States and $17 in Britain'. *The story of what has happened to labour costs in the past fifteen years tends to differ according to whether one is talking to management or unions.*

'Iron and steel industry real wages have gone down sharply since pre-war', Mr Junzo Nagano, adviser to the Iron and Steel Trades Federation, told me. 'In 1952 in Japan raw material represented 49 per cent of the total cost, fuel 45 per cent, maintenance 5 per cent, and labour about 1 per cent. (For Britain, according to Mr Nagano, the comparable figures were raw material 40 per cent, fuel 41 per cent, maintenance 13 per cent, and labour 6 per cent.)

Exact Japanese costs are considered a trade secret, but based upon quotations for a ton of steel bars (19mm.) costs today in Japan are equivalent to $104, in the United States $60-$65, in Britain $70-$80, and in Belgium $85. Japanese steelworkers employed by large firms receive the highest wage paid to the nation's 'brawn workers'—with overtime, but excluding semi-annual bonuses, about £21 monthly. From this 20 per cent is deducted for income tax. In 1934-6 the average wage in the industry, according to the union, was equivalent to £28 10s. and no income tax was payable. 'Productivity (Mr Nagano says) is now 20 per cent higher and wages 25 per cent lower.'

## Sewing Machine Exports

Prominent among Japan's leading exports are sewing machines and bicycles. In 1951 exports of sewing machines totalled $23 millions, the highest recorded since 1940, but a sharp drop from an annual average of $163 millions for the 1934-6 period. In 1952 exports of sewing machines were slightly less than the previous year, but the industry was still the second largest export earner of all machinery. In 1953 exports totalled $22,244,700. A typical sewing-machine factory is the post-war plant of the Juki Industrial Company, Ltd, near Tokio, which manufactures some 7,400 machines monthly—of which one thousand to fifteen hundred are exported, mainly to the Middle East, South America, and India.

'Production cost of the company's main treadle model (excluding sales organisation and advertising expenses) is £13 apiece', Mr Tadanori Matsui, an official of the company, told me. 'Under the dual-price system the export price is $42 (about £15) f.o.b., while the price on the Japanese domestic market is £17 wholesale and £23 10s. retail.'

Manufacturing costs are made up thus: materials and plant, about 60 per cent; labour, 15 per cent; maintenance, 10 per cent; offices costs, selling, etc., 15 per cent. 'The total comes to the $42 overseas selling price, and there is no profit on export orders. Prices have slumped gradually from a peak of around $48 in 1951. The Japanese domestic market continues strong and so we can maintain exports by cutting prices. Our main trouble is increasingly severe competition from other Japanese manufacturers—not from foreign competitors. It is the Japanese themselves who are forcing export prices down.'

*Labour costs in the industry have risen sharply in recent years—but not in percentage. Five years ago, wages accounted for 30 per cent of the total cost per unit. Rationalisation, subcontracting, and increased productivity have combined to cut that figure in half, enabling the Juki company's sewing machines to be sold abroad at one-third of the price of similar products made in the West.*

## Company Housing

Seventy-five per cent of the company's employees are males whose earnings for a 48-hour week average—in the case of men of 29 years and over (and at the present exchange rate)—£16 10s. to £17 monthly. Bachelors may live in company dormitories, and 20 per cent of the married employees occupy company-owned houses. The women employees (one in four) average £6 to £7 monthly and are housed and fed by the firm at a cost to the employee of 50s. monthly—'but', said an official, 'they often buy additional food and not much is left of their pay'.

## Bicycle Exports and Prices

Before the war Japan's bicycle exports mostly consisted of parts and mainly went to Manchuria, China, and Korea, the highest export figure being reached in 1937, when 50 per cent of the total production of 2,258,000 bicycles were shipped abroad. Since the Pacific war, exports of bicycles and parts has been sluggish, amounting last year to 10.7 per cent of the total production of 302,000 units. 'The price of Japanese bicycles has now become cheaper than that of British manufactures', stated the English-language daily, *Nippon Times*, recently. 'Although, at

one time, Japanese products were too highly priced to compete on the foreign market, in the first half of last year the price went down to $24.45, nearly a dollar lower than the British price of $25.37.'

One of the most prominent makers is the Dai Nippon Bicycle Manufacturing Company, which employs a thousand workers in three factories and produces some seven thousand bicycles and equivalent parts monthly. 'Pre-war, the wholesale price of the company's superior model was equivalent to about £16, and the cheapest £8, but some small Japanese plants were selling bicycles as low as £4', Mr T. Mizutani, managing director of the company, informed me. 'Today, the wholesale price of the superior model in the domestic market is £18 10s., and of the cheapest £11.' The export price of the cheap model (the only one the firm now sells abroad) is around £9, representing a differential between home and export markets of close to £2 per bicycle. But 'exports markets are bad and dwindling'—out of a production of some 200,000 bicycles monthly for the whole industry, 'less than 10 per cent' (including parts) is exported at present.

Most parts are made by subcontractors and assembled in the Dai Nippon Bicycle Company's plants, which makes it difficult to calculate labour costs. But Mr Mizutani claimed that 'the cost of materials and especially of wages has gone up remarkably in recent years'—in the case of wages to a present average for the industry of about £14 monthly compared with the equivalent of £4 monthly at the low exchange rate prevailing in the thirties. This wage compares with an average wage in all manufacturing industries of £17 7s.—or about £12 monthly if the Japanese yen were placed upon a more realistic exchange rate of 1,500 to the pound sterling.

## To Sum Up

To sum up. Wages absorb a larger slice of the total national income than in 1934, when average daily earnings in a comprehensive group of industries was 1s. 7½d. for men and 10d. for women. But, having regard to the present artificially high yen exchange rate, the depreciated purchasing power of the yen, and a rise in living costs, it is not clear that the rise in labour costs has as yet contributed materially to offset the advantage which Japan enjoys as a cheap labour country. Further, whatever the ultimate effects of post-war wage increases upon export prices, the average Japanese worker is still much where he was in the pre-war years—which was close to the subsistence level. And with a virtual wage 'freeze' now in operation, prospects for any rise in the living standards of Japan's workers are dependent upon reductions in domestic price levels, of which there is at present little sign.

*The figures I have given, while only a 'sampling' of conditions as a whole, strongly suggest that if and when Japanese industry replaces obsolete equipment and completes rationalisation plans, and commodity prices are brought down to world levels, the main exporting industries will again be in a position—without deviating too far from the path of economic and commercial rectitude—to offer their foreign competitors a hard battle for overseas markets.*

# Coming Burden of Aged in Britain

## P.E.P.'s More Cheerful Estimate

In 1972, on the basis of the Registrar General's estimates, the proportion of the population of active age in England and Wales will be 62 per cent, compared with nearly 64 per cent at present (1952). For the country as a whole the dependent population will increase by less than two million (three million more old people but one million fewer children under fifteen), and the active population will increase by over half a million.

Set out in terms of the future changes in the structure of the population, the prospects for the nation of an increasing number of old people are less frightening. Indeed, between 1939 and 1952 the number of dependants in the population increased by over 2,500,000 (1,000,000 children and 1,500,000 old people), although the numbers of people between fifteen and the pensionable ages remained about the same.

### Why This Anxiety?

Why is there so much foreboding about the future economic problems of a growing army of aged people and practically no reference at all to this remarkable change in the structure of the population which, in numerical terms, makes likely decennial changes in the future look relatively small?

These fears seem to ignore the fact that although the number of people in the active age-groups has barely increased at all since pre-war years, the numbers in civil employment have increased by more than 2,000,000. Allowing for the different way in which manpower statistics are now collected (compared with before the war), it would appear that the proportion of the population in civil employment increased from 42 or 43 to 45 per cent. The reduction in the number unemployed, from 1,700,000 in 1938 to 400,000 in 1952, accounts for most of the improvement. (There has also been an increase in the proportion of women at work.)

Despite an increase of over 2,500,000 in the number of dependants in the population between 1939 and 1952, eighty-two were at work for every hundred not working in the latter year, compared with seventy to seventy-five for every hundred not working before the war.

The ratio between 'producers' and 'non-producers' will be one of the key economic factors in the future, as the number of old people grows. Is it possible to calculate this ratio? If it is, then it will be easier to understand the long-term effects on the country's economy of the increasing number of old people. Will a smaller number of workers have to support a larger number of dependants?

It is of course extremely difficult to predict the future working population, as so many economic, social and political factors are involved, but it is possible to make a rough guess on the basis of present experience. The Table shows possible future trends, on the assumption that the proportions of men and of women at work both under and over the pensionable ages will remain constant.

*From Providing for Pensions, P.E.P., London, May 23, 1954*

**Producers in Civil Employment in Relation to Non-Producers**

| Year | *First Projection** No. of producers per 100 non-producers | *Second Projection†* No. of producers per 100 non-producers |
|---|---|---|
| 1939 | 70-75 | 70-75 |
| 1952 | 82 | 82 |
| 1962 | 84 | 85 |
| 1972 | 84 | 86 |

*Number in civil employment per hundred non-producers in 1952 applied, for 1962 and 1972, to Projection No. 8 of Reports and Selected Papers of the Statistics Committee of the Royal Commission on Population. The projection is based on the assumptions of (*a*) declining mortality, in accordance with trends over the last fifty years, (*b*) number of marriages in each future quinquennium being half-way between the number which would have resulted from male and female nuptiality of 1942-47 respectively, (*c*) fertility 5 per cent above 1935-38, (*d*) no migration.

†Ditto, for Projection No. 6, based on the same assumptions except for (*a*) constant mortality.

A few comments on the table should be made. Despite a slight trend to fewer people in the active age-groups in the next twenty years, there will be more men but fewer women in these age-groups. (More than twice as many men as women are normally in civil employment.) This is the main explanation for the encouraging trends indicated by the Table. It must be remembered that the figures are based on the assumptions that unemployment will not increase over the 1952 level, that the proportion of those of working age in the defence services will remain as at present, and that the proportions of men and women at work both under and over existing pensionable ages will remain constant. But what emerges is that in terms of the number and proportion of potential producers and non-producers in the population over the next twenty years, measured in the light of recent trends, there is no cause for alarm about the increase in the numbers of old people.

The change in the ratio between producers and non-producers is likely to be very slight, and the trend may even be favourable. In short, there are unlikely to be relatively fewer workers or relatively more dependants in the population in the next twenty or thirty years.

**Need Old People Work?**

In general, population trends in Britain reinforce the need for all employers to make the fullest use of the abilities of older people below pensionable age, and also to employ to the best advantage those beyond pensionable age who are both able and willing to continue at work.

But the case for encouraging more old people to stay at work rests chiefly on social and psychological grounds or on grounds of making faster improvements in national living standards. Present population trends and patterns of work give no grounds for arguing that more must work because within the next twenty years there are otherwise likely to be fewer workers doing more work to maintain more dependants in the population. An uninformed crusade to make more old people stay at work may have an unfortunate psychological effect on those who are no longer fit to work or who feel that they have earned their retirement. The fear of being an unwanted burden on society must not be added to the other economic, social, and emotional problems of readjustment that a person faces on retirement.

# New Books Reviewed

*Migration and Economic Growth. A Study of Great Britain and the Atlantic Economy. By Brinley Thomas. National Institute of Economic and Social Research. Economic and Social Studies XII. Cambridge University Press* 1954: 42*s*.

This book, the fruit of long research, has a central theme of the rhythm of the evolution of the Atlantic economy, from 1830 to 1950, expressed in periodic waves of international migration and foreign lending. Other subjects discussed are British settlement in the Dominions, the origin and impact of American immigration restrictions, the social ladder in the United States, and the influence of immigration on American productivity. The study, which gains added value by the inclusion of the whole statistical material used in its preparation, is an important contribution to the analysis of the development of the Atlantic community.

*The State of British Agriculture*, 1953-4, *by K. E. Hunt, University of Oxford Institute for Research in Agricultural Economics, Oxford, March* 1954, 10*s*.

Some idea of the quality of this document may be gained by reference to the extract from the preface printed elsewhere in this issue of Economic Digest, but its remarkable scope is not there indicated. The author's standpoint is that the British farmer has now to submit himself, for the first time in a decade, to the discipline of a market dominated by consumers' preference, and must therefore learn how to trade profitably under those conditions. He holds that, for that purpose, the farmer needs a broad picture, not only of Britain's, but of the world's economy. He has therefore set himself the task of presenting a picture in sufficient detail to be valuable, yet avoiding the confusion that detail is likely to generate in minds not perhaps accustomed to this kind of study. He has made a thoroughly good job of an extremely difficult task. The farmer-reader will need to apply himself to the work if he is to get anything out of it, but he can certainly get a very great deal out of it if he does apply himself. As a reference book for others it represents a remarkable concentration of useful material.

*Change is our Ally, A Tory Approach to Industrial Problems, by the 'One Nation' Group of M.P.s, Conservative Political Centre, London,* 1/6

Anybody who is old enough to remember the old party divisions will rub his eyes often as he reads this book which, despite its title, is a *Liberal* approach in every sense. Part I is concerned with 'the retreat from *laissez-faire*' which it conceives to have come to an end—

or at least hopes that it came to an end—in 1951. Part II looks forward to 'the return to a free economy', and gets down to the brass tacks of steel, coal, gas and electricity, and agriculture; and concerns itself boldly with such problems as denationalisation, and restriction and monopoly in private industry (not forgetting restrictions by labour). It is a courageous booklet, for it is by no means certain that the political winds are blowing that way; but it is also an intelligent piece of work which must one day bring its own rewards.

*The Mining Journal Annual Review*, 1954, *The Mining Journal, London*, 7/6.

As in previous years, this annual is a complete reference book on metals and mining throughout the world. It is well classified, and the essays on technical progress in the various departments of mining and on the industries' finance are also admirable.

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## PUBLICATIONS OF UNITED NATIONS AND SPECIALISED AGENCIES

*The Determinants and Consequences of Population Trends. A Summary of the Findings of Studies on the Relationships between Population Changes and Economic and Social Conditions. Population Studies No. 17. United Nations, New York. (Available from H.M. Stationery Office, 30s.)*

This report is a comprehensive survey of the existing scientific studies concerning the relationships between population trends and economic and social factors. Its 315 pages of text are divided into three parts—introduction and historical background; factors affecting population trends; economic and social effects of population changes. In addition, the volume contains a bibliography of 40 pages.

*Yearbook of Food and Agricultural Statistics* 1953. *Part 2: Trade. F.A.O. Rome*, 1954 (*available from H.M. Stationery Office*, 17*s*. 6*d*.)

This is the fifth issue of the Yearbook. In the main, it follows the pattern of its predecessors, but presentation has been considerably improved by giving for the first time a post-war average, based on the three years 1948-50, and by showing totals not only for continents but also for regions. In addition to averages for 1934-38 and 1948-50, the tables give annual data for 1950, 1951 and 1952.

*Enlargement of the Exchange Economy in Tropical Africa. United Nations, New York* 1954. (*Available from H.M. Stationery Office*, 3*s*.)

*Economic Bulletin for Europe, Vol. 6, No. 1. Fourth Quarter* 1953. *E.C.E., Geneva, May* 1954. (*Available from H.M. Stationery Office*, 3*s*. 9*d*.)

Contains a special article on Europe's Trade in Agricultural Products.

*Report on International Definition and Measurement of Standards and Levels of Living. United Nations, New York, March* 1954 (*available from H.M. Stationery Office*. 6*s*.).

*Economic Survey of Asia and the Far East* 1953. *Bangkok*, 1954 (*available from H.M. Stationery Office*).

*Economic Survey of Latin America* 1951-52. *New York*. 1954 (*available from H.M. Stationery Office*; 17*s*. 6*d*.).

*Economic Survey of Europe in* 1953, *including a Study of Economic Development in Southern Europe. Geneva*, 1954 (*available from H.M. Stationery Office*; 17*s*. 6*d*.).

*European Agriculture—A Statement of Problems. Geneva*, 1954 (*available from H.M. Stationery Office*; 6*s*.).

*Annual Bulletin of Transport Statistics. ECE, Geneva*, 1954 (*available from H.M. Stationery Office*; 9*s*.).

*Quarterly Bulletin of Steel Statistics for Europe. Vol. V. No. 1, Geneva, March* 1954 (*available from H.M. Stationery Office*; 7*s*. 6*d*.).

*Competition Between Steel and Aluminium, Geneva*, 1954 (*available from H.M. Stationery Office*; 9*s*.).

*Growing Food for a Growing World. The Work of FAO* 1952-53. *Rome, February* 1954 (*available from H.M. Stationery Office*; 2*s*. 6*d*.).

*Commodity Reports: Rice No.* 4. *FAO, Rome* (*available from H.M. Stationery Office*; 1*s*. 6*d*.).

# DUNLOP RUBBER COMPANY

## YEAR OF SOLID ACHIEVEMENT

The fifty-fifth annual general meeting of the Dunlop Rubber Co. Ltd., was held on June 14 in London.

The Rt. Hon. Lord Baillieu, K.B.E., C.M.G., chairman, in the course of his speech, said: Our results for the year 1952 reflected two adverse factors, the first being the change that had taken place to a Buyers' Market in this country and abroad, and the second the Inventory adjustments that had been necessary by reason of a very steep fall during the year in the prices of our principal raw materials, and in particular rubber. In the year 1953 trading generally was on a steadier basis with demand at a much more normal level. In consequence the volume of goods sold by the Group was higher than in the previous year, but selling price reductions had the effect of reducing slightly the turnover value of goods sold from £250 million to £243 million.

During 1953 our raw material prices again fell, the price of rubber falling from 27d. per lb. at the end of 1952 to a low price of 16d. per lb., finishing at the end of the year at 17d. per lb. Thus over the 12 months there was a net reduction of 10d. per lb. This was a good deal less than the fall in the previous year, but it nevertheless again created problems with Inventory adjustments.

I would emphasise that throughout the Group, selling prices are constantly under review, so that adjustments are made wherever costs and production volume permit. Our modest profit percentages in relation to turnover, the percentage, after tax, for the year 1953, representing only 5½d. in every £1 of sales.

You will note in comparing our Profit rate in 1953 with that in 1951 that although the rate before tax is lower, the Profit rate after tax at 2.3 per cent is slightly higher than the 1951 rate of 2.2 per cent.

Our overseas activities have again contributed over 50 per cent of the total Group profit. In 1952, you will recall, markets became overstocked as a result of heavy shipments in the early part of the year and there was a considerable drop in the export rate of the industry as a whole. We have a different tale to tell this year. Although in the early months of 1953 experts were not very favourable, the position began to improve towards the middle of the year. The heavy stocks acquired in 1952 were gradually absorbed and replacement began. This resulted in a much more normal and healthy level of demand. Consequently, our exports in the second half of 1953 showed a welcome improvement despite increased foreign competition.

I have mentioned on previous occasions the intensive research and development work which we are continually undertaking in relation to the application of new methods. Some examples of the progress made in 1953 are our Tubeless car tyres, 'Extron' conveyor belting, 'Fortiflex' industrial containers (first marketed early in 1954), 'Rubbaseal' protective coating for motor cars and 'Polimal' emulsion for use in the textile, paper, paint and cement industries.

The demand for tyres considerably improved in 1953 compared with the previous year. The high quality of the Gold Seal car tyre, introduced in 1952, has fully justified our hopes. The year 1953 has been one of very solid achievement. So far this year trading has continued on a satisfactory basis.

The report was adopted.

## FOR REFERENCE

*Items in this Section are kept for one year at the offices of Economic Digest. They are available to members of the Economic Research Council and readers by arrangement. Please write, citing reference number of items given in brackets, to 18 South Street, London, W.1, or telephone GROsvenor 4581.*

**Agricultural Products Marketing:** *Problems of Selling Farm Products in the World and in the Netherlands*, by S. L. Mansholt, Netherlands Minister of Agriculture, Fisheries and Food Supply, Quarterly Review, Amsterdamsche Bank Incasso Bank, Amsterdam, Fourth Quarter 1953. (518)

**Backward Countries, Technical Aid:** Following the pattern established a year ago, New York Times on May 24, 1954, produced another admirable survey, country by country, of progress of technical aid. The reports are written by the newspaper's own correspondents, and the resultant collection of facts will take many a month before it trickles through official channels. A most useful piece of work, easy to refer to, precise in its records, and well supported by statistics. (519)

**Labour Force Statistics:** *Labour Force Statistics—Sample Survey Methods*, O.E.E.C., Paris, April 1954. A technical treatise prepared for the guidance of Technical Assistance Missions. It is concerned with how to do the job, not with any results of doing it. (520)

**National Income Statistics:** *National Income Statistics—Are They Accurate or Useful?*, by C. T. Saunders, The Incorporated Statistician, London, March 1954. An eminent civil servant's description of methods of compilation, and warning against inherent limitations. (521)

**Australia's Banking System:** *The Australian Banking System*, a useful study prepared by M. V. Sanzgiri in the Division of Banking Research of the Department of Research and Statistics, Reserve Bank of India Bulletin, Bombay, March 1954. (522)

**Canada's Construction Industries:** *Construction in Canada*, Commercial Letter, Canadian Bank of Commerce, Toronto, April 1954. The period covered is 1932 to 1954. Expenditure in millions of dollars at representative points in the series was 557 (1932), 744 (1939), 2,819 (1949), 4,597 (1953), 4,829 (1954). (523)

**Canada's National Income and Expenditure:** *Canada's National Product and its Distribution*, 1939, 1946, 1952, 1953: Supplement to Business Review, Bank of Montreal, May 1954. (524)

**Italy's Natural Gas:** *Methane, A New Source of Wealth for Italy*, Italian Affairs, Rome, May 1954. (525)

**Italy's Agriculture:** *Post-War Agricultural Development in Italy*, Italian Affairs, Rome, May 1954. (526)

**Italy's Industry, Finance, Economy:** *The 1951 Census of Industry and Trade in Italy, Some Preliminary Results* (B. Barbers); *Problems of E.P.U. and Italian Commercial Policy* (G. Carli); *The Italian Economy, Growth Factors and Bottlenecks* (B. Foa), Quarterly Review, Banca Nazionale del Lavoro, Rome, December 1953. (527)

**Japan's Industry:** *The Prospect of the Industrial Situation*, Fuji Bank Bulletin, Tokyo, Volume IV, No. 4, 1954. A detailed survey of every department of industrial production and prospects, in six sections: (1) Metals and Mining; (2) Machinery; (3) Transport and Shipbuilding; (4) Textiles; (5) Provisions; (6) Chemicals and others. (528)

**U.K. Agriculture:** *The Taxpayers' Gamble on the Agricultural Market*, by H. Frankel, Westminster Bank Review, London, May 1954. Another example of the admirable work of the Agricultural Economics Research Institute, University of Oxford. (529)

**U.S.A. Capital Position:** *Domestic Production and Foreign Trade—The American Capital Position Re-examined*, by Professor Wassily Leontief (Harvard), Economia Internazionale, Genoa, February 1954. A lengthy and important study of the input-output variety, which is part of the systematic analysis of Structure of the American Economy conducted by the Harvard Economic Research Project. (530)

**U.S.A. Capital Outlay:** *Capital Outlays and Security Offerings* (1947-53), Federal Reserve Bulletin, Washington, April 1954. (531)

# BRITISH INSULATED CALLENDER'S CABLES LTD.

## Satisfactory Results

The 9th annual general meeting of British Insulated Callender's Cables, Ltd. will be held on June 10 in Liverpool.

The following is an extract from the circulated statement of the Chairman, Sir Alexander Roger, K.C.I.E.:

In my Statement last year I expressed the opinion that trading conditions in 1952 had been exceptionally favourable and the drop in 1953 Trading Profit of £1,178,002 to £8,344,074 was not unexpected by us. Under all the circumstances we consider the results, which are more in line with the normal year 1951, to be satisfactory.

The main features of the Profit and Loss Account are that the fall in Trading Profit has been more than offset by the decreased charge for Taxation and the increased Special Receipts leaving Net Available Profit from the year £533,901 higher at £3,998,336.

Your Directors have had fully in mind the claims of Stockholders for an increased distribution. Thus, while continuing to strengthen reserves by transferring £500,000 to Reserve for Replacement of Fixed Assets, and £1,000,000 to General Reserve; and by adding £322,346 to the Balance Carried Forward on Profit and Loss Account, they propose to pay a total dividend for the year of 10 per cent less Income Tax (of which 2½ per cent, less Income Tax, has already been paid as an Interim Dividend last January) and to make a Special Distribution of 2½ per cent free of Income Tax out of Capital Profits earned on the realisation of investments and properties in 1953 and earlier years.

In certain of our activities the Group has enjoyed a good load factor with all its benefits, but in others the load has been erratic with all its consequent problems.

Technically, I believe that in our industry we are as efficient as anyone in the World and we are spending large sums each year to remain so. From the cost angle much can be done by the introduction of new plant and processes, but the full benefits can only finally be obtained by overall efficiency and hard work.

Although there has been a welcome increase in the intake of orders since last Autumn, there is no doubt that the days of having long order books are over.

The relinquishment of Government controls over most of our raw materials, and the growing freedom we therefore enjoy, are a help and challenge to us all in the Group to achieve greater productivity, even higher efficiency and lower costs. They must remain our foremost objectives.

Conditions from the short-term aspect may not be easy—they rarely are! But I have confidence in the future of this Group with its wide spread of interests both in products and in territories; with its active research and technical activities; with its fine factories constantly being improved; and above all with its enthusiastic, competent and loyal team of men and women.

## The Chairmanship

In concluding this review of the 1953 results, I also virtually conclude my active service as a Director and as your Chairman, for it is my intention immediately after the forthcoming General Meeting to resign both these Offices.

I get particular pleasure and comfort from the proposed appointment of Mr W. H. McFadzean as my successor in the Chair. He and I have worked together closely and happily for over twenty years, and since the amalgamation he has been my right-hand man. I commend him to you with complete confidence.

Also issued with the Accounts was a tribute from the Board of Directors to Sir Alexander Roger on the occasion of his retirement as Chairman and Director of the Company.

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